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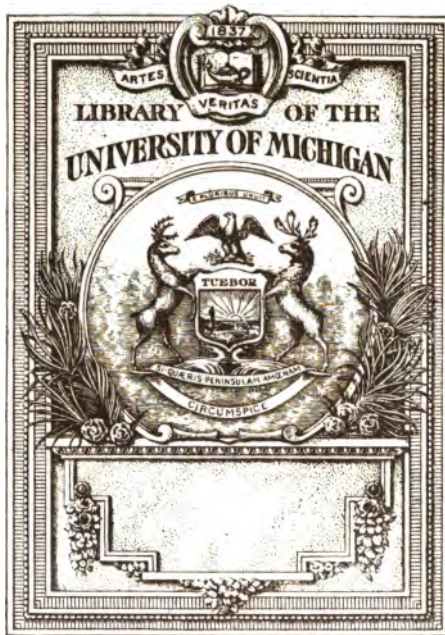
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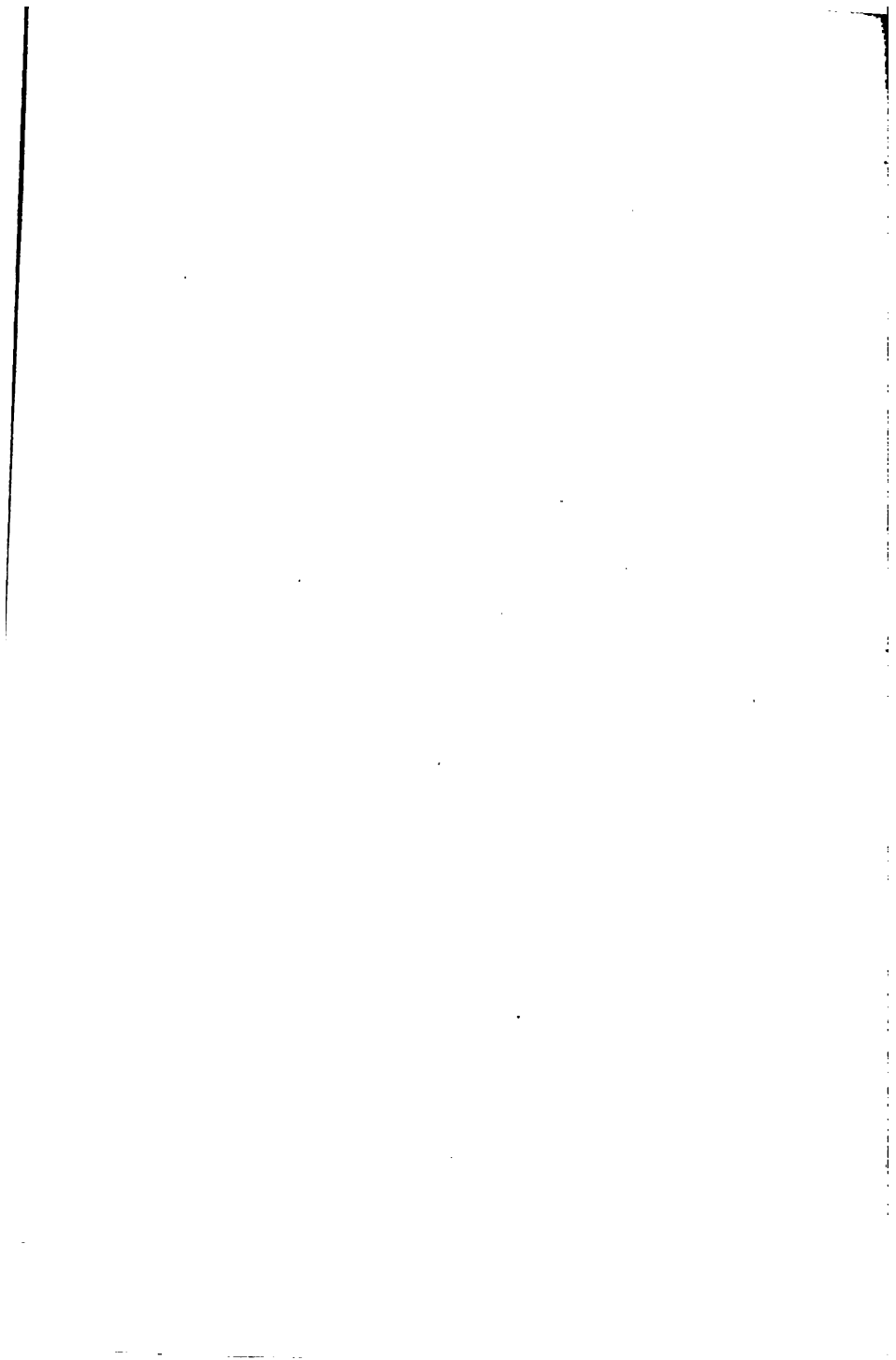
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# Modern Business

A SERIES OF TEXTS PREPARED AS  
PART OF THE MODERN BUSINESS  
COURSE AND SERVICE OF THE  
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# BUSINESS AND THE GOVERNMENT

BY  
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**MODERN BUSINESS**

VOLUME 24

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## PREFACE

"God knows, we need men now! We need men whose trust is not in words, in rhetoric, in fine phrases, or in noble expressions of sentiment, but men, genuine, sincere, devoted; men who think not merely of what they can get out of their country, but what they can give to their country; men who, upon the basis of plain, practical, and sensible hard work in the ordinary affairs of life, carry ever noble idealism and a sincere capacity for self-devotion."

These earnest words were spoken, not as an exhortation to stimulate military ardor or to arouse patriotic enthusiasm. They were spoken by Elihu Root, one of the greatest statesmen, lawyers and business men that this country has produced, at a dinner given by the Bar Association of New York to Charles Evans Hughes, another great statesman, lawyer and business man. They are a plain statement of facts applicable to business men in their "plain, practical, sensible hard work in the ordinary affairs of life."

Few men realize how intimately their daily work is tied up with the business of government; how in fact the influence of government permeates, shapes and often controls almost every act of their daily lives. This book is intended to set forth briefly and simply

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the most important of these relations and at times to suggest how these relations may be improved.

The facts are so numerous that rigid selection had to be made. Even this condensed statement, however, will come as a revelation to many business men whose eyes have been constantly bent upon the details of their daily task. They should lift them to catch the vision of the daily opportunity for public service in their everyday work, which will promote good business as well as noble patriotism.

This book will have served a good end if this revelation of the relations of business and Government, by wakening the consciousness of opportunity, shall make clear the fact that good business and community service are one.

It is a pleasure as well as a plain duty to acknowledge my deep obligation to all those who have assisted in the preparation of this volume; especially to Dr. R. D. Fleming, Doctors A. Wellington Taylor and Willard C. Fisher, Professors of New York University, and Mr. Rufus D. Smith, Director of Community Service and Research of New York University.

JEREMIAH W. JENKS.

New York, February, 1917.

# TABLE OF CONTENTS

## CHAPTER I

### THE PUBLIC IN PARTNERSHIP

SECTION	PAGE
✓ 1. Business a Type of Social Activity . . . . .	1
✓ 2. Business Is the Foundation upon Which Civilization Is Built . . . . .	1
3. The Business Man Deals with Other Individuals .	2
4. Business Men as Members of Organized Government . . . . .	3
✓ 5. Business Men's Acts Are Affected by the State .	4
6. The Business Man as Citizen Affects the State .	5
7. The Government; the Committee or Agent of the State . . . . .	6
8. Influence of the Personality of Government Officials	8
9. Conditions Under Which the Government Must Act . . . . .	9
10. Legislatures . . . . .	12
11. The Executive and the Judiciary . . . . .	14
12. Nature of Public Opinion . . . . .	16
✓ 13. Influence of Public Opinion on Business Questions	17
14. The Business Man's Influence on Public Opinion .	18
15. Social and Ethical Questions . . . . .	20

## CHAPTER II

### TAXATION AND BUSINESS

1. The Funds of Government . . . . .	22
2. Share in Distribution . . . . .	22
3. Nature of Taxation . . . . .	25

viii      **BUSINESS AND THE GOVERNMENT**

SECTION	PAGE
4. Canons of Taxation . . . . .	26
5. Incidence of Taxes, or Who Pays Taxes? . . . . .	27
6. Forms of Taxes . . . . .	30
7. General Property Tax . . . . .	31
8. Modified Forms . . . . .	31
9. Income Tax . . . . .	32
10. Inheritance Tax . . . . .	34
11. Justice and Taxation . . . . .	35
12. Single Tax . . . . .	35
13. Indirect Taxation . . . . .	37
14. Internal Revenue Taxes . . . . .	38
15. Ideal System of Taxation . . . . .	38
16. State Taxation . . . . .	39
17. Public Finance . . . . .	40
18. Importance of Public Expenditures . . . . .	41

**CHAPTER III**

**GOVERNMENT, NATURAL RESOURCES AND THE FARMER**

1. Land Problems Common . . . . .	44
2. Private Ownership of Land . . . . .	44
3. American Land Policies . . . . .	45
4. Mineral Lands . . . . .	45
5. Forests . . . . .	45
6. Conservation of Natural Resources . . . . .	46
7. National Conservation Commission . . . . .	47
8. Reclamation Service . . . . .	47
9. Government Grants Land to States . . . . .	48
10. Public Parks . . . . .	48
11. Plans for Conservation . . . . .	49
12. Importance of Agriculture . . . . .	49
13. Fields of Government Activities . . . . .	50
14. Department of Agriculture . . . . .	51
15. The Bureau of Animal Industry . . . . .	51
16. Bureau of Plant Industry . . . . .	52

## CONTENTS

ix

SECTION	PAGE
17. Colleges Under the Morrill Act . . . . .	52
18. Agricultural Colleges . . . . .	53
19. Hatch Act Experiment Stations . . . . .	53
20. Farm Management . . . . .	56
21. Institute Work—Smith-Lever Bill . . . . .	57
22. Extension Teaching . . . . .	58
23. County Agents . . . . .	58
24. The Marketing Problem . . . . .	59
25. Farm Capitalization . . . . .	61
26. Improvement in Rural Conditions . . . . .	62
27. Future Activities of Government . . . . .	63

## CHAPTER IV

### GOVERNMENT PROMOTION OF INDUSTRIES

1. The Tariff and Politics . . . . .	65
2. Tariff Systems . . . . .	65
3. The Mercantilists and the Theory of Protection . . . . .	67
4. Alexander Hamilton's Views . . . . .	67
5. Conflicting Economic Interests . . . . .	69
6. Principles of Tariff Legislation . . . . .	71
7. Classification of Products . . . . .	71
8. Infant Industries . . . . .	72
9. Who Bears the Burden of the Tariff? . . . . .	74
10. How Far Should a Country Be Self-Sufficient? . . . . .	75
11. Education and Diversification . . . . .	76
12. Diversion of Capital Into Less Profitable Industries . . . . .	77
13. Effect of a Tariff on Wages . . . . .	77
14. Home Market . . . . .	79
15. Do Protective Duties Cause Slackening of Industrial Progress? . . . . .	80
16. Foreign Trade a Small Part of Total Trade . . . . .	80
17. Tariffs Exert Small Influence on Industry . . . . .	81

SECTION	PAGE
18. Chief Objection to Tariff . . . . .	82
19. Machinery of Tariffs . . . . .	82
20. Goods Under Bond . . . . .	83
21. Kinds of Duties . . . . .	83
22. Bounties . . . . .	84
23. History of the Tariff . . . . .	85
24. Effect of the European War . . . . .	85
25. Dumping . . . . .	85
26. Economic Independence of Nations . . . . .	86
27. A Tariff Commission . . . . .	87

## CHAPTER V

### PROMOTING FOREIGN COMMERCE

1. Cooperation of the Government in Foreign Trade	89
2. Finance and Foreign Trade . . . . .	89
3. Foreign Exchange and Dollar Credits . . . . .	91
4. Development of Mutual Understanding . . . . .	91
5. State Department—Diplomatic Service . . . . .	93
6. Consular Service . . . . .	94
7. The Consul and His Duties . . . . .	95
8. Creation of the Bureau of Foreign and Domestic Commerce . . . . .	96
9. Commercial Attaché and His Work . . . . .	97
10. Export Trade Greatly Stimulated . . . . .	98
11. More Practical Results . . . . .	98
12. Work of the Special Agent . . . . .	99
13. Division of Consular Reports . . . . .	100
14. Branch Offices . . . . .	102
15. Bureau Has Received Cordial Support of Business Organizations . . . . .	103
16. Federal Trade Commission and Foreign Trade . . . . .	103
17. Triple Combination Battling for American Ex- ports . . . . .	106



## CONTENTS

xi

### CHAPTER VI

#### PUBLIC INSPECTION OF BUSINESS

SECTION	PAGE
✓1. Controversy Regarding Government Inspection . . . . .	107
2. Need of Standards in Business . . . . .	107
3. Weights and Measures . . . . .	108
4. Salt, Lumber, Grain and Sugar . . . . .	110
5. Inspection of Meats as a Commercial and Sanitary Measure . . . . .	113
6. Inspection for the Export Trade . . . . .	114
7. Pure Food Laws . . . . .	115
8. Banks and Insurance Companies . . . . .	118
9. Protection of the Public by Examination and Certification of Certain Professions . . . . .	118
10. Certification of Other Servants of the Public . . . . .	120
11. Quasi-Official Privileges . . . . .	120
12. Limitations of Inspection . . . . .	122

### CHAPTER VII

#### LABOR LAWS: SAFETY AND SANITATION

1. Nature and Importance of Contracts . . . . .	125
2. Importance of Labor Contracts . . . . .	125
3. Necessity of Public Regulation . . . . .	127
4. Constitutional Limitations in the United States . . . . .	127
5. American Labor Policy . . . . .	128
6. Experience as a Guide . . . . .	129
7. Results of Regulation . . . . .	129
8. Regulations not Perfect . . . . .	130
9. More Regulation Especially Regarding Safety and Sanitation . . . . .	130
10. New Perils in Modern Industry . . . . .	131
11. Dangers in Present Industrial Methods . . . . .	133
12. Accidents in Industry . . . . .	133
13. Burden of Sickness Among Employes . . . . .	134

xii BUSINESS AND THE GOVERNMENT

SECTION	PAGE
✓ 14. Employes not Responsible for Accident or Sick- ness . . . . .	135
✓ 15. Employers did not Provide Safety . . . . .	136
16. Government Assumes Duty of Protection . . . . .	137
17. Industries Covered . . . . .	138
18. All Classes of Employes Included . . . . .	139
19. Prohibition Not Common . . . . .	139
20. Regulation Rather than Prohibition—Its General Character . . . . .	140
21. Accidents Most Regarded . . . . .	140
22. Occupational Diseases . . . . .	141
23. General Diseases . . . . .	142
24. Safety thru Workmen's Compensation . . . . .	142
25. Public Inspections . . . . .	143
✓ 26. New Industrial Commissions . . . . .	144
27. Results of Regulation . . . . .	145
28. Promise of the Future . . . . .	147

CHAPTER VIII

LABOR UNIONS

1. Labor Unions of Recent Origin . . . . .	149
2. Origins of the Unions . . . . .	149
3. Growth and Present Extent of Unions . . . . .	151
4. Need of Regulation by Government . . . . .	153
5. From Suppression to Regulation . . . . .	153
6. British Experience and Its Teaching . . . . .	154
7. Early Suppression in the United States . . . . .	155
8. Beginnings of Present American Policy . . . . .	155
9. Policy of American Government Not Yet Settled . . . . .	157
10. Mere Existence of Unions Not Threatened . . . . .	157
11. The Strike . . . . .	158
12. The Boycott . . . . .	159
13. Picketing . . . . .	160
14. Injunctions in the Control of Unions . . . . .	161

## CONTENTS

xiii

SECTION	PAGE
15. Financial Liability of Members of Unions . . .	161
16. Equal Rights for all, the American Policy . . .	162
17. Legal Equality and Actual Equality . . .	162
18. Democracy Will Demand Actual Equality . . .	164

## CHAPTER IX

### THE EMPLOYMENT OF WOMEN AND CHILDREN

1. Hiring of Women and Children Formerly In- frequent . . . . .	166
√ 2. Early Environment of Women and Child Workers	167
3. The Coming of Modern Industry . . . . .	167
4. Demand for Regulation: Sources and Grounds .	168
5. Basis and Field of Regulation in the United States	169
6. Exclusions from Employments . . . . .	169
7. Hours and Time of Employment . . . . .	170
8. Age Requirements, Physical and Mental Qualif- ications of Children . . . . .	171
9. General Comfort, Sanitation, and Rest . . . .	171
10. Arguments for and Against Regulation . . . .	172
11. Deterioration thru Employment the Primary Fact	172
12. Idleness and Industrious Habits . . . . .	173
13. Need to Supplement Family Incomes . . . . .	174
14. Richer Permanent Production Doubtful . . . .	174
15. Gains Uncertain, Losses Certain . . . . .	176
16. Public Regulation Necessary . . . . .	176
17. Discretion Necessary in Regulation . . . . .	177
18. Regulation Not Without Its Evils . . . . .	177
19. The Minimum Wage . . . . .	178
20. Laws in the United States . . . . .	178
21. Decisive Experience Still Lacking . . . . .	179
22. Extent of Low Wages . . . . .	179
23. Attitude of Employers . . . . .	180

xiv BUSINESS AND THE GOVERNMENT

SECTION	PAGE
24. Caution in Adopting the Minimum Wage . . .	180
25. Present Regulations Beneficial as a Whole .. .	181

CHAPTER X

SOCIAL INSURANCE

1. New Risks in Modern Industry . . . . .	183
2. Working People Seek Insurance but Little . . .	184
3. Social Insurance—Meaning and Kinds . . . . .	185
4. Life Insurance . . . . .	185
5. Workmen's Compensation . . . . .	186
6. Frequency of Industrial Accidents . . . . .	187
7. Causes of Accidents . . . . .	187
8. Consequences of Accidents . . . . .	188
9. Failure of Employers' Liability . . . . .	189
10. Theory of Workmen's Compensation . . . . .	189
11. Essential Provisions in Workmen's Compensation	
Laws . . . . .	190
12. Scope of Compensation Laws . . . . .	191
13. Limited Benefits . . . . .	191
14. Assurance of Benefits . . . . .	192
15. Simple Administration . . . . .	192
16. Results of Workmen's Compensation . . . . .	192
17. Health Insurance . . . . .	193
18. Field and Scope of Health Insurance . . . . .	193
19. Benefits Under Health Insurance . . . . .	194
20. Sources of Funds . . . . .	194
21. Administration and Its Peculiar Difficulties . . .	194
22. Results of Health Insurance . . . . .	195
23. Insurance Against Invalidity and Old Age . . . .	195
24. Compulsory Old Age Insurance . . . . .	196
25. Old-Age Pensions . . . . .	196
26. Insurance Against Unemployment . . . . .	197
27. Compulsory Insurance Against Unemployment . .	198
28. General Results and Prospects of Social Insurance	198

# CONTENTS

xv

## CHAPTER XI

### IMMIGRATION

SECTION	PAGE
1. Necessity of a Resourceful Population . . .	200
2. Immigration Especially Important to Business Men in the United States . . . . .	200
3. Extent of Immigration . . . . .	200
4. Changed Racial Character of Immigrants Im- portant . . . . .	202
5. Immigrant Races Flock Together . . . . .	203
6. Occupation and Distribution Important Factors .	203
7. Weight of Immigration Borne by the Industrial Centers . . . . .	204
8. Later Immigrant Shows a Lack of Permanent Interest . . . . .	205
9. The Immigrant and Industrial Processes . . .	206
10. Immigrant's Tendency to Lower the Standard of Living . . . . .	207
11. Effect on Growth of Population . . . . .	207
12. Restriction Necessary to Maintain an American Standard of Living . . . . .	208
13. Distribution of Wealth a Real Indication of Pros- perity . . . . .	209
14. Labor Unions Opposed to Immigration . . .	210
15. Recent Immigrants Coming to Recognize the Need for Restriction . . . . .	211
16. The Immigrant an Important Financial Factor .	211
17. Vast Natural Resources Alone Are not Enough .	212
18. Large Amount of Capital Needed to Employ Im- migrants . . . . .	212
19. Immigration Without Adequate Capital Means Non-Adjustment . . . . .	213
20. Immigrants to Bring Money . . . . .	214
21. Natural Method of Raising Standards . . .	214
22. Vast Population to Draw on . . . . .	215

SECTION	PAGE
23. Restriction Will not Deprive Ambitious People of a Chance in Life . . . . .	215
24. Americanization of Immigrants . . . . .	216

## CHAPTER XII

### PUBLIC SERVICE CORPORATIONS

✓ 1. Public Service Corporations Need Special Recognition . . . . .	218
✓ 2. Recent Growth of Public Service Corporations . . . . .	218
✓ 3. Why Different From Other Industries . . . . .	219
✓ 4. Meaning of Natural Monopoly . . . . .	219
5. No Reasonable Competition Between Railroads in Same Territory . . . . .	220
✓ 6. Public Service Corporations Tend Inevitably Toward Monopoly . . . . .	221
✓ 7. Characteristics of Public Service Enterprises . . . . .	222
8. Substitution Impossible . . . . .	223
✓ 9. Competition Impossible . . . . .	223
✓ 10. Assisted by the Government in a Peculiar Way . . . . .	224
11. Bad Practices in the Past . . . . .	224
12. Public Service Character Not Recognized . . . . .	225
13. Systematic Regulation a Recent Matter . . . . .	225
14. Powers of Regulating Commissions . . . . .	226
15. Commissioners, How Chosen . . . . .	227
16. Commissioners Must Possess High Qualifications . . . . .	227
17. Status of Regulating Bodies . . . . .	227
18. State Versus Local Regulation . . . . .	228
19. Advantages of State Regulation . . . . .	228
20. Optional Home Rule . . . . .	229
21. Achievements of Regulating Bodies . . . . .	230
22. Powers of Commissions . . . . .	231
23. Net Income and Distribution . . . . .	231
24. Valuation of Properties . . . . .	232

## CONTENTS

xvii

SECTION	PAGE
25. Points in Dispute . . . . .	233
26. Regulation of Security Issues . . . . .	234
27. Regulation of Public Utilities Still in Developmental Stage . . . . .	234

## CHAPTER XIII

### TRUSTS AND COMBINATIONS

1. No Clear-Cut Government Policy Recognized . . . . .	236
2. Definition of Trusts and Combinations . . . . .	237
✓ 3. Why Government Interferes . . . . .	237
4. Policies Followed by Germany . . . . .	239
5. Policy Followed by England . . . . .	240
6. Canadian Policy . . . . .	240
7. Methods of Regulation Under the Canadian Act . . . . .	241
8. Considerations in the Canadian Policy . . . . .	241
9. Beginnings of American Anti-Trust Movement . . . . .	242
10. Sherman Anti-Trust Act . . . . .	243
11. "Monopoly" in the Sherman Act . . . . .	244
✓ 12. Reasonable and Unreasonable Restraint of Trade . . . . .	244
13. Standard Oil and Tobacco Decisions . . . . .	245
14. United States Steel Corporation Decision of 1915 . . . . .	246
15. International Harvester Company Decision of 1914 . . . . .	246
16. Sound Business Principles Recognized . . . . .	247
17. Affirmative Decision by United States Supreme Court, Recognizing Honest Business Methods . . . . .	248
18. The Real Question Involved . . . . .	249
19. Public Interest as Shown by Facts . . . . .	250
20. Attempts to Clarify the Sherman Anti-Trust Law . . . . .	250
21. Powers of the Federal Trade Commission . . . . .	251
22. Readjustment of Business and the Prescribing of Appropriate Decree in Equity Suits . . . . .	251
✓ 23. Power of Investigation . . . . .	252

**xviii BUSINESS AND THE GOVERNMENT**

<b>SECTION</b>		<b>PAGE</b>
v 24.	Power to Require Reports and Classify Corporations . . . . .	253
v 25.	Power to Prevent Unfair Competition . . . . .	253
26.	Advantages and Disadvantages of These New Laws	254
27.	Increasing Power of Federal Government . . . . .	255
28.	Distinction Between Commerce and Manufacturing	255
29.	Federal Incorporation or License for Interstate Commerce . . . . .	256

**CHAPTER XIV**

**THE POSTAL SERVICE**

1.	Importance of Postal Service . . . . .	257
2.	Development of Postal Service . . . . .	258
3.	Activities of Post Office Constantly Expanding . . . . .	259
4.	Particular Reasons for Government Management of the Post Office . . . . .	260
5.	A Field for Government and Revenue . . . . .	261
6.	Social Aspects Prominent in the Post Office . . . . .	261
7.	Should Be Run Efficiently and Economically . . . . .	262
8.	Financially a Failure . . . . .	263
9.	Proper Accounting Methods Lacking . . . . .	264
10.	Other Factors Causing Inefficiency . . . . .	264
11.	Extravagance and Special Favors . . . . .	265
12.	Reasons for the Parcels Post . . . . .	267
13.	Parcels Post Introduces a New Principle . . . . .	267
14.	Post Office Has Never Determined Costs . . . . .	268
15.	Government Urged to Take Our Telegraphs and Telephones . . . . .	269
16.	Unprogressiveness of Government Plants . . . . .	271
17.	What Guiding Principles Should Be Followed? . . . . .	272
18.	Government Should Act on Basis of Accurate Knowledge . . . . .	273



# CONTENTS

xix

## CHAPTER XV

### LOCAL PUBLIC UTILITIES

SECTION	PAGE
1. Multiplicity of Municipal Activities . . . . .	275
2. Municipal Ownership in the United States— Waterworks . . . . .	276
3. Electric Light Plants . . . . .	276
4. Gas Works . . . . .	277
5. Street Railways . . . . .	278
6. Municipal Ownership in Europe . . . . .	278
7. The Issue: Regulation or Ownership . . . . .	279
8. Why Municipal Ownership is Undertaken . . . . .	280
9. Moral Aspect of Municipal Ownership . . . . .	281
10. A New Point of View . . . . .	281
11. Favorable Interest Rates Secured . . . . .	281
12. No Dividends on Watered Stock . . . . .	282
13. Expense of Regulation . . . . .	282
14. Better Labor Conditions Under Municipal Owner- ship . . . . .	283
15. Great Betterment in Social and Political Condi- tions Claimed . . . . .	284
16. European Conditions Different from Those in the United States . . . . .	284
17. Municipal Ownership in France . . . . .	285
18. Policy of Favoring Workmen by Reduced Rates . . . . .	290
19. Poor Systems of Municipal Accounting . . . . .	291
20. Modern Development Affects Advantages of Muni- cipal Ownership . . . . .	292
21. Development of Holding Companies . . . . .	294
22. Municipal Government Still Inefficient . . . . .	294
23. Municipal Ownership Advisable Where Health, Sanitation and Public Safety Demand It . . . . .	295

## xx BUSINESS AND THE GOVERNMENT

SECTION	PAGE
24. Where Profit is Predominant Motive, Private Management Is Better . . . . .	296
25. Issue Must Be Settled by Experience . . . . .	296

### CHAPTER XVI

#### SHOULD PUBLIC MANAGEMENT BE EXTENDED?

✓ 1. Government Management Not a Panacea . . . . .	299
✓ 2. Advantages at Times Greater than Disadvantages	299
3. Importance of Health . . . . .	300
4. Government Manufacture of War Materials . . . . .	300
5. The War and the Extension of Public Management	301
6. What Will the After-Effects Be? . . . . .	303
7. The Movement in the United States . . . . .	304
8. A Government-Managed Armor Plant . . . . .	304
9. A Government-Managed Merchant Marine . . . . .	305
10. Extension of Post Office Work . . . . .	306
11. Dishonest Financial Methods Must Stop . . . . .	307
12. Government Management of Railroads in Canada a Failure . . . . .	308
13. Government-Managed Railroads in France Not a Success . . . . .	309
14. Conditions Under Which Government Management May Be a Success . . . . .	311
15. Many Erroneous Statements Made as to Costs . . . . .	313
16. Fallacies in Government Figures . . . . .	313
17. Why Private Management Is More Efficient . . . . .	316
18. Private Business Dynamic . . . . .	317
19. Government Management Seldom a Source of Revenue . . . . .	318
20. Dangers of a Large Civil Service . . . . .	319
21. Could Dominate Country Thru Vote . . . . .	320
22. Some Questions to Be Asked . . . . .	321
23. The Public Must Be Sure of Facts . . . . .	322

## CONTENTS

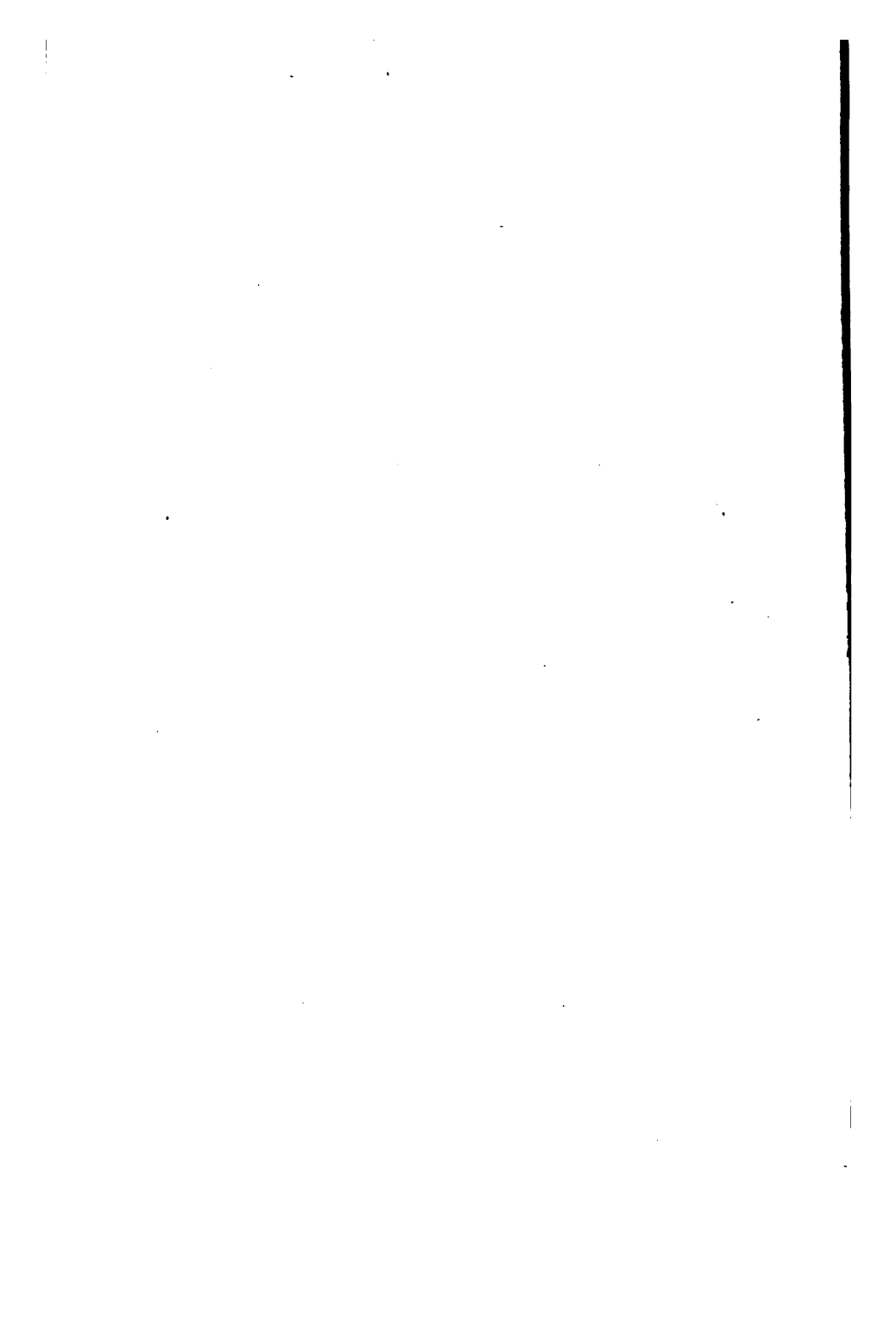
xxi

SECTION	PAGE
24. A Remedy to Be Sparingly Applied . . . . .	323
25. Fundamental Principle Is Public Welfare . . . . .	323

### CHAPTER XVII

#### INFLUENCE OF BUSINESS ETHICS ON GOVERNMENT MANAGEMENT OF BUSINESS

1. Government Management at Different Periods . . . . .	326
2. Influence of Civil War on Public Sentiment . . . . .	327
✓ 3. Causes of Demand for Government Management of Business . . . . .	328
4. Interstate Commerce Law and Sherman Anti-Trust Act . . . . .	329
5. Wage-Earners . . . . .	330
6. Political Influence . . . . .	331
7. Ethical Standards of Governments and of Business Men . . . . .	332
8. Motives of Private and Government Managers of Business . . . . .	333
9. Public Servants and Private Servants . . . . .	334
10. Relative Costs of Production . . . . .	335
11. Business Men Lead in Wise Government Regula- tion of Business . . . . .	336
12. Illustrations of Business Honor . . . . .	337
✓ 13. The Goal of Business . . . . .	340



# BUSINESS AND THE GOVERNMENT

## CHAPTER I

### BUSINESS AND THE PUBLIC IN PARTNERSHIP

1. *Business a type of social activity.*—“No man liveth to himself alone.” This is a fact as true in business as in wedlock, in a ballroom or in an army. A man cannot do business with himself. He must deal with others. In Volume I, “Business and the Man,” special study has been made of the personal characteristics of the individual business man, of the way in which he should be molded and should mold himself in personality and character. Thruout the Modern Business Course, so far, the viewpoint has necessarily been that of the business man as an individual working with and upon other individuals to improve his business. In this volume the viewpoint is that of the business man looking upon himself as a citizen in the state and upon the state as a prominent, in many respects a dominant, factor in determining his activities as citizen and as business man.

2. *Business is the foundation upon which civilization is built.*—Architecture, music, literature, morals, even religion, all have in greater or lesser degree a

business basis essential to their development. Witness the need of organization and money-getting skill in secretaries and executive heads of all types of philanthropic and other kinds of social organizations. James Russell Lowell in characterizing the value of a state as "the amount it has contributed to the knowledge, the moral energy, the intellectual happiness and the spiritual hope and consolation of mankind," nevertheless spoke of material success as good, as the necessary preliminary to these better things.

8. *The business man deals with other individuals.*— In his daily routine, the business man is in constant touch with other individuals. If he is a merchant he must note their needs; as a salesman he must awaken in them desires for his products; as a manufacturer he must study the tastes of those who are to consume his products. In all his relations, whether manufacturer, salesman, employer, or chairman of a board of directors, he must make a study of human nature, seeing how he can best meet the wishes, possibly overcome the weaknesses, influence the judgment, mold the wills, of the special members of the society with which he deals. No less must he recognize the fact that as one of the units in society he is himself subject to the influence of others upon himself. The wise man with clear vision will recognize that he is one of a group subject to the influence brought by others to bear upon him, as he attempts to bring influence to bear upon others. The whole business game is this social action and reaction, an in-

tertwinning of forces, of wills and of conditions out of which grows, thru the likeness of men and the community of their interests, an orderly business society and normal social development.

4. *Business men as members of organized government.*—Owing to the normal differences of needs, opinions and judgments of the different individuals in a community, men have necessarily organized themselves for the purpose of regulating their social activities for the good of the majority. *The state is all of us organized for the purpose of ruling.* “Scientific Anarchists” who are disposed to rebel against the checks put upon individual activities by the force of government believe that merely a voluntary organization for specific purposes is sufficient to satisfy social needs. As men organize literary societies for the culture of their members, Sunday schools for the moral instruction of the children, scientific associations to promote biological or astronomical or geographical investigation, so, they believe, the ideal state needs no other than voluntary groups to promote business, recreation and all other types of social activities. But recognizing, as we must, the hampering influence which actual governments exert at times upon the legitimate and even noble aspirations of the good, we must likewise recognize the presence of the evil doers among us. We must note also the fact that even the very good have differing views and that the best men are at times driven by their consciences into unyielding stubbornness, so that if society is to

be orderly, and if the community as a whole is to move toward practical accomplishment, force must needs at times be employed. There must then be this organization for purposes of ruling; and the business man is constantly coming into contact with the organized community either in town, or state, or nation.

5. *Business men's acts are affected by the state.*—

The organized community affects the business man directly in various ways. Sometimes it assists him directly, as when the Department of State at Washington, thru its consular force, supplies him with the names and the standing of prospective purchasers of his goods in foreign countries; or when, thru the establishment of lighthouses, the government enables him to guide his ships safely thru tortuous channels or makes known to him the existence of hidden reefs.

Sometimes the state regulates his ways of doing business; as when the Interstate Commerce Commission determines the rate of freight that the railways may charge; or when the Public Service Commissions of our different states decide upon the accommodations that must be furnished by street railway companies to their patrons; or when the Building and Health Departments in our great cities enforce the regulations for the erection of buildings.

Sometimes the state itself appears as the owner and manager of certain classes of business, as when the United States Post Office Department manages an important phase of the transportation business; or



when certain cities manufacture and sell to the inhabitants gas or electricity, or provide their citizens with their water supply. In all these and in many other ways all of us in our organized capacity as ruling power are assisting or controlling or directing or managing each of us in our unorganized capacity as individuals. In the instances cited the state is directly affecting the business man in his business life. Likewise thru the police department or health departments, it may control his personal acts in other ways and in case of need thru the military power—necessarily placed in the hands of the state—it may take away temporarily his personal liberty, compelling him to sacrifice his business for the sake of the community or even to yield up his life for the common good.

6. *The business man as citizen affects the state.*—The business man, however, is not merely passive and acted upon by his fellow citizens, he is himself under all forms of government, but especially in a republic, an active member of the state, and as such he helps direct its work. In a country like ours, how active he shall be in his work as citizen is largely dependent upon his own will. Just criticism has been leveled at business men on account of the little attention that they have often paid to their privileges and their duties as citizens. What moral right in a republic has a business man to receive the protection of his government, to benefit from its direct assistance to him in his business, and then utterly to ignore any duty that he has toward his collective fellow citizens,

except as he pays taxes under compulsion, or yields to a sheriff's summons? The slogan of the civic reformers "a country has the government that it deserves" is largely true, and possibly the application of this maxim applies with greater emphasis to the business man than to any other group of citizens.

Not long ago Mr. W. C. Brown, former president of the New York Central and Hudson River Railroad, said that the railroads had made a great mistake in not early recognizing that they were in reality public service corporations responsible to the public. When the first legislation restrictive of railroad actions in the way of regulating their freight rates was passed, the railroads fought the bills vigorously as trenching upon their private rights. "Had we had sense enough to see the truth then and to join with the legislators of those days in placing proper safe guards around the people's interests," said Mr. Brown in substance, "we might practically have written the railway legislation of this country; and the laws could have been made not only more acceptable to the railways but distinctly more beneficial to the public. And yet, with all its faults, the present governmental restrictive policy is distinctly an improvement upon the former unregulated action of the railroads."

7. *The government; the committee or agent of the state.*—Whenever any group of individuals desires to take common action, it is usual for it to select a few to do its active work. Every business corporation, every

church, every literary or scientific association, every social club, is organized with its board of directors, its officers, its chief executive, to put into effect the determinations of its members. Likewise the State; society as a whole organized for the purpose of ruling, has its grand committee to formulate and put into effect its will. That committee we call the government. The special subcommittee that formulates its rules of action is the legislature—to a slight extent, the judiciary—while the executive puts these regulations into effect.

There is no way for the State effectively to express its will save thru the government. The individual members of the State by public addresses, newspapers and books may speak their individual desires or express the determination of their individual wills, but in their organized capacity they can act only thru their government. When Germany builds a battleship, the determining acts are taken by the Government. When Great Britain makes a loan, a small committee of its executives with the approval, given usually in most general terms by its Parliament, makes the bargains and issues the bonds. When the President of the United States in his official capacity deals with the Emperor of Japan acting officially, the act is that of all of us, citizens of the United States, treating with all of the citizens of Japan, even tho thousands or even millions of individuals in both countries may be protesting not only most bitterly in their hearts but vociferously with their tongues.

The government, when it comes to State action, is no lofty abstraction. It is a few human beings, usually men of capacity. But if it be one dominating will like Napoleon or the mad Nero, its acts are still the acts of the State and all the citizens must share the responsibility.

8. *Influence of the personality of government officials.*—Too often individual citizens speak of the Government as if it were some far off superior abstract being which does not come into direct contact with ordinary individuals. Far more practically accurate was the feeling of the poor French peasant who appeared one day before the entrance of the Chamber of Deputies with a basket on his arm, asking to see the Government. When the guard, doubting his sanity, asked his errand, he replied, "Why, I see in the papers that the Government has been doing many good things for us poor peasants; he is having roads built near our farms; he has prevented the filling up of our rivers so that our boats can carry our vegetables to market; he has sent some *gens d'armes* to our village to keep robbers from injuring us; he has done so many good things for us that I want to thank him and have brought him in my basket a goose for a present."

It makes a great difference in the acts for which we are all responsible whether a Buchanan or a Lincoln, a Jackson or a Polk, a Roosevelt or a Wilson, a Jefferson or a John Adams occupies the Presidential chair. Possibly of even greater significance than the

personality of the President is it to the ordinary citizen in the every day affairs of his life, whether the local town official is a progressive, liberal-minded man or a stingy ignoramus. It is the will of such a one that determines the qualifications and the salary of the country school teacher. In the one case the character and development of his children may be at stake; in the other it may be only an unnoticeable change in the form or amount of his taxes. In any event, whatever the grade of the official, he stands for us; and we as business men may determine whether or not he represents our wills and our wishes and whether he is a man of the type to represent us. *The business man needs therefore to study his relations with his Government as a practical human study.*

9. *Conditions under which the government must act.*—Few people who have not taken an active part in government or who have not been thrown into practical contact with government officials, have a clear conception of the conditions under which these officials must do their work. This ignorance often leads to most unjust criticism. To meet the conditions suggested by such criticism would require supermen, not human beings.

Every business man knows the value of time. The head of any large corporation must count his minutes. The time of interviews with subordinates must be carefully allotted in proportion to the importance of the decisions to be reached; the time for seeing visitors must be restricted. But consider the circumstances

of the President of the United States. Most presidents have felt that it was desirable to see practically every visitor who wished to call, altho in many cases the only business was to satisfy personal curiosity. Members of the Cabinet or persons not belonging to the government whose views are required or those who have most important dealings with the government must be given sufficient time,—possibly several interviews. Arrangements must be made for such individuals, or for representative delegations dealing with important matters, to have time for discussion. Those whose requests demand only a decision that can be reached after brief conference need five minutes, ten minutes, fifteen minutes, and so on thruout the range of callers, sometimes reaching scores, hundreds, possibly even thousands a day. The President's secretaries, learning in advance the people and their business must allot this precious time—a thoro interview for some, a few minutes conversation with another, time for a one or two minute decision with a third, and for a throng who have called "merely to pay their respects," an opportunity to walk past in line and in a whirling second to shake the President's hand and look into his face.

Realizing the enormity of the burden of responsibility when a wrong decision may involve the country in war, or the approval of a wrong internal policy may change the entire structure of the government for good or ill, the business man may see how imperative it is that the President's work be well organized

and that he surround himself with counsellors of the most practical, wisest type.

The President must rely largely upon the members of his cabinet, the heads of the bureaus and the chairmen of congressional committees for his information and for the knowledge of conditions on which his decisions are based. He should have men upon whose judgment he can rely to take from him all of the burden of making decisions on every matter except those of the gravest importance, for he must bear the responsibility even tho the decisions are made by others.

Again, when one notes the great mass of correspondence that must be handled by the President's office, or by that of any of the heads of departments, it is seen that these higher officials like the heads of great business corporations can give attention only to the matters of highest import. The great mass of the work must be left to subordinates; and even on matters requiring action by the highest officials, the burden of detail in gathering information and framing replies, even when great events are at stake, often falls upon subordinates.

The great mass of citizens do not realize these conditions. The business man should realize them and in consequence should see to it that there is no begrudging higher officials every assistance needed in order to lighten their tasks; nor, on the other hand, should he spare any effort to see that only those with executive qualifications and sound judgment on busi-

ness as well as political affairs, occupy the higher positions. *A clear conception of government if thoroly instilled into the minds of the business men of the country would sound the knell of the demagog's hopes and would end his pernicious activities.*

10. *Legislatures.*—The business community finds itself under restrictions built around it by laws. In consequence the methods of law making as well as the character of the lawmakers should receive attention. There has been much talk of corruption on the part of American legislators, tho happily the charges are becoming fewer. Doubtless the character of our legislators and our legislative methods have greatly improved, but these matters are still of the gravest significance and our law makers are rarely experts. We would not think of entrusting a banking business to one not trained as a banker, nor the erection of a great building to one not trained as an architect; but the making of tax laws—a process touching the fortunes and the welfare of millions, a process more complicated in its possibilities for good or for evil to a community, than the erection of many buildings or the failure of dozens of banks,—we do entrust to men utterly untrained in the principles of taxation.

Again, we business men tolerate the framing of laws under conditions which render it practically impossible to get the benefit of disinterested, competent advice. Corruption in our legislatures has been usually in connection with private bills, those affecting franchises of public service corporations, or condi-



tions of contracts for making public improvements. The recommendations for such legislation in the first instance passes thru the hands of large legislative committees of thirteen or fifteen members. The man whose constituency is likely to be most directly affected is given chief consideration in the hearings—often carried on in public, quite after the type of mass meetings, with an opportunity for “heckling” by members of the committee. Such matters are handled more wisely elsewhere. In England, for example, all private bills are referred first to a small committee that sits independently as a court with the examination conducted largely in accordance with court rules. Due notice must be given in advance to all parties whose interest in any way appears, and to the public by proper advertisement. No member of the committee whose constituents directly or indirectly have any interest in the decision is allowed to vote. All matters must be prepared in advance with the detailed estimates as to costs—in case of engineering work, with proper drawings—and with opportunities for trained counsel to be heard on both sides. The decision reached by the committee thus by substantially judicial processes, with every possible opportunity for undue influence removed, when later submitted to the House of Commons or the House of Lords for approval, is practically certain of ratification. By processes of this kind corruption has been practically stamped out of such legislation in Great Britain.

With us investigations that have appealed to the popular sense of honor and to public sentiment thereby aroused have accomplished much the same end as regards corruption. But these factors still leave very much, practically everything, to be desired from the viewpoint of thoro, scientific investigation and decision.

The business man heretofore, if he were to be certain of protection of his legitimate interests, or to secure legislation that would affect his interests favorably, has often been forced to work with legislatures by secret methods and by lobbying in ways that while legitimate do not appeal to intelligent, fair-minded men. The whole matter of legislation in business affairs, in consequence, is felt by many business men to be an uncertain, costly procedure from which they can expect little in the way of benefit or of certain security against harm.

11. *The executive and the judiciary.*—The work of the executive whether President, or governor, or mayor, has usually affected the business man in a much less direct way, except so far as these executives determine legislation. Beyond that, their influence upon business has been largely seen in making improper appointments, in accepting information which might determine the interpretations of legislative action, the method of the enforcement of the laws, or even in the granting of privileges, the awarding of contracts, the doing of business in connection with routine work.

Perhaps the chief criticism of the higher executives has come either from failure to give protection to business interests especially those abroad, or the failure to make appointments of officials who would conduct the government's work, where it affected business, by methods that were reasonably economical and efficient. In most of these lines especially in connection with municipal government, there has been great improvement of late years, tho much remains to be desired. Inasmuch as the chief difficulty in many cases has resulted from the effect upon business that the decisions of the executives may have, the chief remedy is to divorce politics from business and see to it that appointments are made thru merit rather than as a party reward. And, of course, the business men can see to it that the executives get sound information on business questions whenever they so desire.

In the interpretation of the law by the judges, it would, of course, be improper for the business men to attempt to influence the opinion of the judges except by seeing to it that proper and accurate information is furnished, whenever opportunity offers, either in the presentation of cases before the court or thru the public press. Judges wish to form their opinions accurately upon evidence and to base their decisions upon law; but aside from the technical evidence there is always a mass of information accessible to the public, and to the judges as part of the public. This more or less unconsciously shapes the opinions

of every man—and the judges are likewise thus affected.

12. *Nature of public opinion.*—The opinion of the public is usually determining upon the acts of legislators and of executives, if that opinion is decided and clearly expressed. We are all of us largely influenced, either consciously or unconsciously, by those with whom we come in contact. Very many of the discussions regarding public opinion overlook the fact that the environment of most individuals is distinctly limited. Each man numbers among his friends and acquaintances only a few; and his opinions, his judgment, his course in life are determined chiefly by the judgment of those few. Here and there the opinion of a teamster may be affected by the word of a distinguished lawyer, but only rarely and indirectly. The opinion of the teamster is likely to be that of other teamsters, those who come under similar influences and have similar associations. Likewise, the judgment of the housemaid as regards clothing, social proprieties, the nature of the service, is the public opinion of the housemaid's society, not that of the mistress. And when it comes to industrial action determined by legislators, the opinions of each member of the great voting groups is likely to be swayed in the same way as that of his fellows in his own social and business class.

Political leaders are not mistaken in their methods of dealing with different classes of individuals. They work upon trade unions thru trade union officials,

upon members of certain nationalities, Italian, German, Bohemian, thru influential individuals of those nationalities, especially thru those who come into personal contact as members of the class that it is desired to reach. *Public opinion is not one opinion; it is a kind of composite picture of various types of opinion built up from the conversations and influences of members of each one of the separate social groups.*

13. *Influence of public opinion on business questions.*—How influential this public opinion is may often be seen in connection with matters affecting the business welfare of the community. If prices are rising and the cost of living is rapidly increasing, most classes in the community are affected and there is likely to arise in a short time a demand for investigating commissions, for direct action on the part of mayors and governors, for legislative acts to be passed by state legislatures or by Congress. In most cases such demands are made, as can readily be seen by noting the nature of the bills introduced, without any fundamental knowledge of business principles. What seems at first hand to be a cause, such as high freight rates or profits of middlemen, are taken up, attacked, discussed and possibly legislative action taken, even tho there has been no wrong or unbusinesslike action on the part of any of the parties mentioned, and altho the legislative action can have no good effect. The action has been a reflection of the unenlightened opinion of untrained groups. It should be

always remembered that *ignorance plus ignorance does not equal wisdom*.

On the other hand this same public opinion strengthened by a feeling of justice on the part of employers of labor often leads to increases in wages, properly earned and greatly needed. At times, however, the pressure of this public opinion acting thru legislatures possibly even upon courts brings broadest injustice. Still again, such opinion often has a decided influence upon the outcome of strikes or other disputes between great classes in the community, the general sentiment in the main being probably right, altho frequently, in minor matters, mistaken.

14. *The business man's influence on public opinion.*—Probably nine-tenths of the questions that affect our social life most intimately have their origin in business. All matters of wages, of prices, of freight rates,—everything that has to do with our material life touches business. The business man, therefore, if he is broad-minded, intelligent, conscientious, is really the authority that should be consulted. He is the man who should make an organized effort to give to the public the information which he himself possesses, and to give it in such a way that it may have due influence in shaping public questions.

It is encouraging to note that the business men have been forced to take a more active interest in aiding the public to secure accurate judgments. Heretofore, in many instances, for fear that they would be charged with serving their own personal

interests, they have hesitated to let the facts be known. But the action of many of the railroads in printing at their own expense in the public press definite statements of fact and positive conclusions regarding matters pending before legislatures, is only to be commended, as long as they give the facts accurately and fully. An active part in public matters by business men will prove to be of the greatest value to business itself; and from that viewpoint alone it is justified.

On the other hand, government officials are usually desirous of securing accurate information, of making right judgments on public matters. They, therefore, welcome any information given either directly or thru the press, so long as that information is accurate and fair. In no other way perhaps can officials be better helped than by such direct activities on the part of business men.

We should realize that by far the largest part of the time of most men is devoted to business, i.e., to getting a living and supporting those dependent upon them. While we should always keep in the foreground the development of our higher interests, intellectual, moral, religious, we should never lose sight of the fact that by the great majority of the people chief attention must be given to earning a living and conducting business affairs. With these facts in mind, it seems clear that one of the chief duties, if not the chief duty of the business man, aside from conducting fairly his own daily work, is to keep him-

self informed on all questions that affect vitally the public interest thru politics, and to exert his influence in politics by all fair means.

15. *Social and ethical questions.*—A very considerable part, however, of our influence upon society is exerted directly upon the public and not indirectly thru the politicians. Strikes are more likely to be settled, not by legislation or political action, but by both the strikers and their employers feeling that the interests of the public must not be forgotten in their private conflicts. Honesty and fair dealing in merchandising, while affected by the criminal law, is still more affected by the fact that the reputation for unfair dealing is likely to prove unprofitable in business. The social condemnation of one's associates has far more to do with moral, upright living than any acts of the legislature, however severe on the one hand or encouraging on the other. We should see to it then that on all questions of business that are matters of right and wrong the business man not only forms for himself a sound judgment but that he gives vigorous expression to that judgment thru associations to which he may belong, thru the press, thru conversation with his fellows, until, in fact, his shaping of public opinion creates and maintains the highest moral and ethical standards.

#### REVIEW

In what departments of business does a man need most an intimate knowledge of human nature in order to insure success?

Think out carefully the number of people of all classes who



take any part in the producing of a silk necktie, from the beginning of the production of the raw silk to its purchase by the wearer.

What are the forces that bring these various groups of producers into such relations that the finished necktie is the result? Consider carefully the various places and ways in which any government affects the acts of any of these producers.

Distinguish clearly the meanings of the words: society, state and government.

Think out all the ways in which you could properly influence legislation if you were private secretary to the Governor of the State of New York.

In what ways and how far are judges influenced by public opinion?

How far and in what ways is it right for a private citizen to attempt to influence the opinion of judges? Of the President of the United States?

How far ought members of the legislature to yield their judgments regarding action on any public measure to the wishes of their constituents?

Can you give any examples of actions in which the ultimate benefit of a business man is at variance with the welfare of the community or does the business man best serve his own interests by the best service to the community?

## CHAPTER II

### TAXATION AND BUSINESS

1. *The funds of government.*—The work of government must be carried on by men and women. These men and women must be supported. To do its business the Government must have buildings, apparatus, machinery, transportation, laws. It must at times have legal advice. It must employ examining physicians; it must engage scientific experts; it must supervise costly experiments. For the carrying on of its work, therefore, the Government must be provided with funds. Inasmuch as every citizen in the community has a share in the benefits of government and inasmuch as all governments of necessity are in a position to enforce their will, it has become customary to exact contributions from their citizens. In earlier, cruder times these contributions took the form of gifts to the rulers, and these gradually became mere matters of custom presented only when asked for and assuming the form desired by the ruler. From this system of enforced gifts have gradually grown up the various types and methods of taxation.

2. *Share in distribution.*—A careful student of public finance has estimated that the average annual

cost of government for every man, woman and child in the United States is not less than forty dollars. This is paid in order that law, order and various conveniences may be maintained. Some citizens pay more, some, of course, pay a great deal less.

The annual cost of government in the United States is some \$4,000,000,000, tho not all this sum is raised from taxation. Part is secured by the sale of public lands, licenses, the Post Office, conduct of public utility corporations and similar activities. We need, therefore, to recognize the difference between income from taxation and from other entirely different sources. Among the highly civilized nations, taxes are high, but the returns from them in the way of protection from fire, care of property, prevention from injury to the person and other conveniences of this sort, are correspondingly great.

It was reported in 1914, by the Interstate Commerce Commission that the railroads in the United States which have an annual income of \$1,000,000 or more, paid taxes which averaged fifty-three dollars more per mile than in the previous year. Everywhere the burdens of government increase with the modern demand for greater social service. What the average percentage of taxes to business incomes may be, it is impossible to estimate accurately, but it is not unusual for individuals and some business concerns to pay as much as ten per cent of their income for the support of government. The California Tax Commission in 1906 estimated the percentage of taxes to

the true value of farm property at 1.14 per cent; the percentage of taxes to gross returns at 6.88 per cent and the percentage to net returns including the farmer's compensation at 9.88 per cent. In contrast, the Commission showed that in the manufacturing industries of the state the percentage of taxes to net product was a little more than two per cent. High as some of these figures seem, they are much less than those found in other countries. In India, for example, in rural districts it used to be common for the farmer to be compelled to give one half or even more of his net crop (i. e., crop less cost of production) for government use. Sometimes 20 per cent of the gross crop was taken as an equivalent. Under the British administration the general policy of taking about 25 per cent of the net crop as a tax has been fairly well established. As we know, under the pressure of the European war, some governments are taking 50 per cent or more of the profits gained in the munitions plants.

These figures show inequalities of taxation. They are cited here primarily to emphasize the point that the payment of taxes is an important element in the cost of doing business. Taxes constitute one of the shares of the product which the state takes from all in some way, either by direct levying on the property values, thru an income tax or thru an indirect taxation of commodities. Everyone pays taxes and when one considers that the governments by their methods may either stimulate or discourage, or even destroy

business and industry, one sees that the importance of the tax problem can scarcely be overestimated.

The absolute necessity of the government securing its income; the vital fact that the government affects for good or ill practically every activity of all citizens; and the constructive or destructive influences of taxing methods emphasize the gross injustice of tax dodging, the duty of paying willingly just taxes, and the imperative need of intelligent study of tax problems. *The State's income must be secured. If thru cheating I evade paying my share, my neighbor who is honest must pay more than his proper part, and morally speaking, I might as well pick his pocket.*

3. *Nature of taxation.*—Professor Bastable in his "Public Finance" defines a tax as "a compulsory contribution of the wealth of a person, or body of persons, for the service of public powers." While a tax may be levied upon property, it always falls upon a person who must ultimately pay it. Tho it may be levied on land or houses, mines, forests, quarries, commodities, franchises or income, in many instances payment of the tax falls ultimately on some altogether different person from the one upon whom or upon whose property it was first levied. The power of shifting the burden of taxation from the shoulders of the tax payer upon others makes it extremely difficult in many instances to determine the best form of taxation. The law says that taxes must be levied in a given way, but if the tax imposes too great hardships it is certain to be evaded. The impairing of

national capital by wrongly placed taxation may ultimately result in the breakdown of national efficiency. The real source of the payment of taxes is income. The levying of any taxes out of proportion to the income of any group is a great error, leading either to fraud or to business ruin.

In many states taxes upon property run as high as two per cent upon its value. When, under the general property tax, the owner of a bond of which the rate of interest is four per cent, must yield one half this income in taxation, it is evident that gross injustice is done. The income of a widow or child taxed to this extent is unduly and wrongfully burdened.

It should always be made clear in justification of any tax that the public good secured by the tax overbalances the hardships of the individuals who pay it. "If taxation requires restriction of the necessary expenditures of the citizen and a lowering of his standard of living, it is certain that the money had best be left in his hands. When aggregate enjoyment is secured at the expense of the industrial efficiency of the unit, it needs no argument to show that such taxation is unwise." In the first constitution of Pennsylvania, adopted in 1776, a clause declares that the purpose for which any tax is to be raised ought to appear clearly to the legislature to be of more service to the community than the money would be if not collected as a tax.

4. *Canons of taxation.*—Adam Smith, the father

of modern political economy, in his "Wealth of Nations," written about 1776, laid down rules of taxation which have been generally accepted. They were: 1. Equality. "The subjects of every state ought to contribute toward the support of government as nearly as possible in proportion to their respective abilities." 2. Certainty. "A tax ought to be certain and not arbitrary." 3. Convenience. "Every tax ought to be levied at the time and in the manner most likely to be convenient for the contributor to pay it." 4. Economy. "Every tax ought to be so contrived as both to take as little and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state."

To these established canons others have been added. For example, Bastable says, "Taxation should be productive, . . . taxation should be justly distributed . . . and a tax system should be elastic."

5. *Incidence of taxes, or who pays taxes?*—It has already been suggested that the man who first pays the tax does not always bear the burden. To secure justice in taxation, the government needs to consider the person upon whom the ultimate burden falls, the man whom Professor Sumner called "the forgotten man" because it is not always easy to find him. For example, a tax levied upon a building may be shifted by the owner upon the landlord, who rents it. He, in turn, may shift it upon his tenant and the tenant in turn may shift it, if he is a merchant, upon the

purchasers of his goods. Changing conditions, of course, alter the incidence of taxes. In industries in which competition prevails, the tax generally falls upon the consumer. If a monopoly exists probably the tax falls upon the producer.

Three conditions may be presented to show how the payment of taxes may be made by different groups.

1. If an industry has reached a certain point in its development when the advantages of a large scale organization have been secured, the manufacture of the product will continue at substantially a constant cost as, for example, in many branches of the textile industry. The selling price of textiles is ordinarily the cost of production plus a small margin of profit. Competition holds the returns at about this point, and as long as knowledge of the industry remains at its present stage and while there is need of the supply that comes from the least successful producer, a tax levied on that industry would be added to the cost of the goods and made a part of the price. Therefore, the consumer would pay the tax in his prices. If the demand should fall off, it might well be that, to get rid of a temporary oversupply, the tax would need to be assumed by the producer thru a lowering of the price, altho this might result in the forcing out of business of the least successful producer.

2. To a large group of commodities, especially the products of the farm, forest and mine, the so-called "law of diminishing returns" applies; that is, increas-



ing supplies of such articles beyond a standard quantity are possible only under a more than proportionately increased cost. A land tax under such circumstances becomes part of the cost of the product to the man at the margin of cultivation; that is, the man who can just survive economically and carry the burden of the tax. It is the cost of production, including the tax, by this man which really fixes the market price. Those whose land is more productive or who for other reasons produce more cheaply will naturally make a larger profit as they will sell at the same price. If, thru a lessened demand, this marginal producer at the greatest cost is called upon to assume the tax thru lowering his price, he may be forced out of business. The tax might thus fall upon the producer who takes his place, and thus again be passed on to the consumer.

3. At the other extreme are the "industries of increasing returns" in which an added amount of capital will frequently give a more than proportionate return in product. These industries, as, for example, street railways, electric lighting plants or manufacture of patented articles, are monopolistic. If his business is conducted purely for profit, the owner will fix the price at the point where he will get greatest net returns. An increase in price will weaken the demand; a decrease in price will strengthen the demand. Experiment will show the point at which it is unwise further to lower the price because the demand does not increase enough to add to the total

profit. If at this point a tax is levied it increases the price and reduces the demand. Under these conditions the monopolists may find it most profitable to assume part or all of the tax so as not to decrease too much the demand.

A monopolist controlling the salt supply of a country, a necessity, could probably shift the tax upon the consumer, since the demand is established and substantially constant. The owner of a monopoly of a luxury would find it more difficult to shift the tax since the increased price would more readily check the demand.

In cases where the price is fixed by custom or by convenience in making change, as is a street car fare, the monopolists would find it extremely difficult to shift the tax and must therefore bear the burden.

From these examples it is seen that the strength of business groups, fixed largely by social conditions, determines the final payment of the taxes.

6. *Forms of taxes.*—Taxes are usually classified as direct and indirect. The direct tax is paid by the person upon whom it is levied. The indirect tax is levied on commodities or persons producing commodities with the expectation that the owners of commodities will be able to shift the burden to someone else.

The direct form of tax has some advantages. It is easier for the tax officials to estimate the revenue and to provide for the collection. But, direct taxes are generally unpopular, frequently encouraging fraud. Indirect taxes are popular, since the burden

is concealed. The tax is diffused, affecting a larger number of individuals. The indirect taxes, however, are often difficult to collect; they often lead to government extravagance in expenditures because the income is uncertain, and they often lay a heavy burden upon industry. The most common direct taxes are the general property tax, the income tax, and the inheritance tax. The most typical forms of indirect taxes are the tariff, and excise taxes.

7. *General property tax.*—In earlier times when the chief forms of property were land and personal property in the forms of animals, tools, weapons and household goods, a general property tax could be levied with a reasonable degree of certainty that there would not be grave injustice done in the inequality of tax burdens. Ability to pay would be measured reasonably well by the values of the property thus estimated. Since, however, many forms of wealth have become intangible in the forms of stocks and bonds, mortgages and other legal claims, it is practically impossible to know the amount of any man's wealth and thus to assess it fairly. Moreover, few assessors can have any fair judgment of the value of many such properties. Practically all tax authorities of the present day condemn the general property tax.

8. *Modified forms.*—To avoid some of the difficulties, certain modifications have been introduced; as for example, certain amounts are levied upon money lending; mortgages are taxed when they are registered; public service corporations are taxed upon their

gross earnings; corporations are taxed upon their stocks and bonds. Credits and book accounts are sometimes exempted from the ordinary personal property tax and a certain fixed amount is levied on each thousand dollars of credits and book accounts.

From all these various examples it becomes evident that the general property tax has been largely discredited, and that there is need of a reorganization of the taxing system in most of our states. A suggestion frequently made is that the government exempt entirely personal property and that there be a combination of income tax and an inheritance tax with a tax on land or land values for local revenue.

9. *Income tax.*—It is generally believed that by taxing incomes we can approach a fair degree of equality in taxation, altho there is usually strenuous objection in this country to the income tax as being too inquisitorial. There can be no question that the income tax is, for a considerable period after its introduction into any country, very difficult to administer. Incomes are hard to ascertain. The government must rely largely upon the sworn statements of individuals. It is extremely puzzling to determine the net income from the gross income. What expenses ought to be deducted? Do incomes in kind, like those of a farmer, come under the provisions of the income tax?

Usually certain distinctions are made regarding the character of the incomes, describing them as salaried incomes, profits and dividends. Generally also an ex-

emption is made of a minimum income which relieves the great majority of the people from the payment of the tax.

During the Civil War, the United States Government levied an income tax of three per cent on all incomes over \$800. Later, modifications were made in the exemption features and a graduated plan was devised for larger incomes. This tax was not successful. The present Federal Income Tax authorized under the United State Constitutional Amendment of July, 1909, allows a deduction of \$3,000 and an additional deduction of \$1,000 for married persons. All incomes in excess of this exemption are subject to an additional tax, the rate of which increases from one per cent additional to 13 per cent for an income of \$2,000,000 or more with rates varying with the amount of the income.

Eight of the states of the Union have also certain types of income tax. Probably England has the most carefully worked out income tax, altho most countries of Europe have an income tax in some form. In England the tax dates back to 1435. Since 1909 all incomes above £160 (\$800) pay a tax, tho there are certain abatements that give the effect of a progressive tax, and the levy is made under the four schedules of incomes from rentals, stock and bonds, salaries and pensions, and other types of revenue. The rates vary from a minimum of 9d. on the pound sterling to 1 shilling and 8 pence; some 3¾ per cent to 8 per cent on incomes of \$25,000 and upwards.

So far as possible the principle of collection at the source of revenue is used in collecting the tax.

10. *Inheritance tax*.—The inheritance tax, called Death Duties in England, is rapidly becoming one of the most important forms of taxation. The advisability of the state taxing inheritances is based upon (1) the fundamental right to curtail or control bequests, (2) the possible wisdom of checking the growth from generation to generation of large estates and (3) the fact that the tax is easy to collect.

Usually the rate of the inheritance tax increases inversely to the nearness of relationship of the heir to the deceased. Cousins, for example, pay a higher rate than children, who are often exempt. Again, the holders of small estates are usually exempt from taxation. In many states the exemption is as high as \$10,000, in New York \$5,000 for the near of kin, \$1,000 for others. The rates of taxation vary. The average is between 15 per cent and 20 per cent for large inheritances, a smaller percentage for small amounts. As a legacy increases in amount, the tax usually increases progressively. In New York state the rate is one per cent on \$5,000, increasing until it reaches from four to eight per cent on all inheritances of \$1,000,000 or more. In other states it reaches 25 per cent or even 30 per cent. So heavy a tax encourages the distribution of a large estate before the death of the owner. Moreover, so great a burden encourages owners to fix their legal residence in states where the burden is lighter. Many ingenious devices

on the principle of the holding company have been worked out to avoid such heavy legal exactions.

11. *Justice and taxation.*—It is evident that nothing more than rough justice can be attained in any scheme of taxation. On account of the unavoidable inequalities of assessment and the fact that incomes vary amazingly with different types of property, the general property tax ought clearly to be abolished. Many questions naturally arise when one attempts to furnish a substitute. Ought taxation to be used as a means of modifying social conditions; for example, to limit in any way the growth of large fortunes? Is ability to pay proportional to the amount of the income? For instance, under existing conditions in the United States is a man with an income of \$100,000 able to pay more than ten times as much as one with \$10,000 or a man with \$10,000 able to pay more than ten times as much as one whose income is \$1,000? Certainly, the sacrifice of personal comfort is probably less, proportionately, as the income increases. It is for this reason usually that progressive taxes are levied.

Owing to the indirect system by which our laboring men are taxed thru their consumption of tobacco and spirits under our internal revenue laws and thru their use of clothing and ordinary articles of home use under the tariff, they are generally exempted from the payment of the property and inheritance taxes owing to the minimum exemptions.

12. *Single tax.*—The Single Tax, first made a po-

litical issue by Henry George in "Progress and Poverty," is based upon the assumption that the increase in the values of land is due solely to increase of population and progress of civilization, and is a source of income unearned by the owner of the property. It was proposed, therefore, by Mr. George that the state confiscate this unearned increment of value by taxation as belonging of natural right to the state. Single taxers have generally assumed that a tax upon land value would be sufficient to meet all the expenses of government even tho, in many cases, it would not need to be confiscatory of the entire amount of the unearned increment.

The Single Tax is no longer in this country to be looked upon as an important political issue so that it does not merit a detailed discussion altho the influence of Henry George's theories has been marked and in certain respects beneficial. They have led to a more careful study of the causes of the increase in the values of land and to a keener analysis of the entire question of unearned increments of value in other fields.

The chief objections to the Single Tax theory are ordinarily:

(1) That the amount received from such a tax would vary most unevenly in different localities, not at all in proportion to the population and often not at all in proportion to the ability to pay taxes.

(2) That in very many instances the tax would not be sufficient to meet the needs of Government.



(3) That inasmuch as many other sources of income besides land have likewise an element of unearned value in them, being brought about largely by increase in population and in civilization, the tax levied on land values alone would be most unjust. Incomes, for example, of many merchants, of lawyers, of physicians, of stock brokers, of bankers, are similarly affected with little or no reference to the question of real estate holdings.

(4) No provision is regularly made for decreases in taxation, altho there are very many instances of decrease in land values; and finally

(5) The present holders of land in very many instances have paid full value therefor and have in consequence paid the penalty of the unearned increment. It would be unjust and morally wrong for these land holders to be deprived of their property without compensation whether or not one were to agree with the general principle of the unearned increment in land values.

13. *Indirect taxation.*—The existence of a duplicate form of government such as is found in America in our Federal and state governments makes it advisable to separate as much as possible our forms of taxation. Until late years the Federal government used only indirect methods of taxation for raising its revenues, the tariff duties and excise duties. There have, however, been several instances of other taxes in emergencies; for example, the income tax during the Civil War and in 1894. Again, in 1912, under the

new Administration, an income tax was taken up as a matter of permanent policy.

The Federal government by the efficiency of its administration has in many ways offset some difficulties connected with indirect taxes. The most important of these taxes are the customs duties and the excise—or internal revenue taxes. The customs duties will be discussed at length in the following chapter.

14. *Internal revenue taxes.*—Besides the tariff, the United States has selected a limited number of domestic articles of luxury or those of minor importance as objects of an excise tax. These are chiefly tobacco, spirits and fermented liquors. From these the income in 1914 was \$304,000,000. From the revenue viewpoint these are admirable objects of taxation as is shown by the large income, the steadiness of the income and the ease with which the tax is collected. At various times, especially in emergencies, other excise taxes have been added as licenses for theatres, moving picture houses, stamp taxes upon patent medicines, upon legal documents of various kinds and fees required from certain types of bankers and brokers.

15. *Ideal system of taxation.*—It is not possible to fix any ideal system of taxation any more than one can plan an ideal form of government. Much is dependent upon local conditions; much is dependent upon the form of governments; much upon the need for revenues; much upon the work required of the government. A country so constituted that it must maintain a large army and navy, necessarily must bear a

heavier burden of taxation than is otherwise required.

A country possessing a substantial monopoly of articles much needed in other countries may wisely levy an export duty. Some of the Federated Malay States thus secure a large revenue from an export duty on tin, the entire burden of which must be borne by foreign consumers, inasmuch as this tin is needed to supply the demand. In like manner, no satisfactory substitute for Manila hemp in the making of ropes for the use of ships having been found, an export duty on the products of hemp yields an excellent revenue to the Philippine Islands without imposing any burden upon the inhabitants. Such conditions exist in only a few countries.

For our purposes, our internal excise taxes seem to have worked admirably. Our tariff taxes, owing largely to our political conditions, may be very severely criticized. They doubtless can be greatly improved, if a tariff commission can be established, to put them gradually upon a scientific basis. An income tax with all of its drawbacks is still an excellent source of revenue. When experience shall have improved the methods of reckoning and collecting, and custom shall have lessened the repugnance to its inquisitorial features, and an adjustment to the burden of other taxes shall have been secured, probably by lowering somewhat the amount of the exemption, this is likely to become a valuable tax.

16. *State taxation.*—In our states, the inheritance

tax and proper forms of the corporation tax are to be recommended. The personal property tax, as it now stands, should probably be abolished. The land tax with proper distinction between land values and improvements on land may well be retained. If more revenues are needed than would come from the sources named, together with fees and licenses, it is probable that there may also be added either a state income tax which could be based in part on returns made to the Federal government, or a presumptive income tax based on rentals and salaries. These in whole or in part would provide to advantage and with a reasonable degree of justice adequate sources of income.

17. *Public finance.*—The government is a permanent agent for the satisfaction of human wants. It has long been agreed that protection of property and the person can be better provided thru the medium of the government than by the individual. Various other wants of the individual can also be satisfied better by the government than by the individual thru private action. How far any government shall become the agent of its citizens in promoting the common welfare depends entirely upon the stage of civilization, the circumstances of the community and the will of the people themselves.

*Public finance is the name given to the collecting of revenues and their expenditure for public purposes.* Consequently, taxation is one phase of finance, public expenditure the other. The rapid growth of public finance is shown by a statement of the amounts

expended. In the year 1810, the United States Government spent \$8,474,000; in 1914, \$914,000,000, exclusive of debt charges. The expenditures of states and cities show similar growths. According to late reports, in 1902 the cities in the United States of over 25,000 inhabitants were spending over \$469,000,000; in 1912, \$900,000,000 of revenue in addition to sums borrowed.

18. *Importance of public expenditures.*—Probably from 10 to 15 per cent of the wealth of the United States is spent by public agencies for education, roadways, care of defectives, sanitation, military and naval programs, and other objects included in modern state expenditures. Many projects of great social importance are proposed that would increase this expenditure still more, but the burden upon the citizens who themselves often have only small incomes has become so great that many proposals for protection from disease, from accidents, for better education and for proper police protection even, are neglected. Nevertheless, there is a continued demand for social betterment movements and the storm center of the struggle for improvement is public finance. The state has first claim upon the wealth of the citizens, a fact particularly apparent in times of war, but good sense lays down certain restrictions in regard to public expenditures. It is clear that the collection of taxes should be made just as inexpensive and as effective as possible and that expenditures should be carefully guarded.

Professor Adolph Wagner, in his *Finanzwissenschaft*, says: The allowable amount of public expenditures will vary according to, (1) the actual economic value of the state's activities; (2) the extent to which the state promotes the economic welfare of all its citizens; (3) the amount of the free social income; and (4) the amount of the net state receipts that come from industries operated by the state. Even these principles give no definite rule by which the amount of public expenditure may be determined. The state should return a real value for what it expends. The economic and political value of the individual citizen should be augmented by the social expenditures for education, sanitation and protection. The social surplus beyond the necessary elemental cost of maintaining life in the household that the members receive, should be maintained. The growth of civilization is dependent upon this social surplus. If the state is absorbing this surplus too rapidly or is actually saving the surplus for future economic enterprises, then the public expenditure is too large. Careful and constant investigation thru well equipped statistical bureaus, manned by highly trained men, can alone furnish an adequate solution of public finance.

#### REVIEW

How did the practice of taxation arise?

By what principles ought a government to fix the maximum and minimum limits of taxation?

Enumerate the canons of taxation.

Think out as many instances as possible of tax payers who are able to shift the burden of their taxes upon others.

What are the chief defects of the general property tax?

Why is the inheritance tax easy to collect?

Does it conform to Adam Smith's third canon of taxation?

What are the chief objections to the Single Tax?

Why is it not practicable to frame an ideal system of taxation?

What is the distinction between direct and indirect taxes and what are the merits and disadvantages of each?

What should be the general relations between taxing systems of national, state and local governments?

How is the growth of public expenditure justifiable?

## CHAPTER III

### GOVERNMENT, NATURAL RESOURCES AND THE FARMER

1. *Land problems common.*—Man and society are so absolutely dependent upon the products of nature for their very existence that the question of control and management of these resources has been vital in all stages of human history.

Thruout the Middle Ages in France, England and Germany under the feudal system, the right of land holding was conditioned by the need of protection of the small man from the bandits that plundered almost at will. Largely out of such conditions grew up the great landed estates in Germany and Great Britain and Ireland, which have given to all these countries a distinctive type of citizen who has wielded a special social and political power.

2. *Private ownership of land.*—Private property is everywhere a matter of the will of the state and is usually a forerunner and an accompaniment of a developed civilization. In the hunting state there may be common ownership of land, but when a man's labor is expended on a special piece of land, he wishes to control that land, and as the state develops, prop-



erty eventually in land also becomes almost universally private instead of communal.

3. *American land policies.*—The great homestead act of 1862, still on force with amendments, gave 160 acres of surveyed agricultural land to adult citizens and heads of families upon proof of five years' residence and cultivation without charge, with the exception of certain fees ranging from \$20 to \$50. To this liberal land policy was due the settling up of the Middle West and the development of this hitherto unparalleled rich territory. In the development of the arid lands that required irrigation or dry cultivation, the laws have been modified, but the underlying purpose is much the same.

4. *Mineral lands.*—At first mineral lands were reserved from sale and leased for royalties. But later they too were almost given away under the agricultural settlement laws. The priceless iron deposits of Minnesota now held by the United States Steel Corporation were originally sold for a nominal sum. The state of Minnesota, from the small tracts given to it for educational purposes has already realized a vast education fund and will probably net in royalties at \$.25 per ton not less than \$250,000,000 from its iron ore deposits.

5. *Forests.*—Timber lands also were first taken up under the settlement laws. The wonderful white pine forests lying around the Great Lakes passed into private ownership at nominal prices and for immediate private profit were sacrificed wastefully to the axe or

in many cases were destroyed by fire. Much of this land, however, has since become valuable for agricultural purposes. On the whole, in spite of the great wastes of our forests and the placing in private hands of priceless mineral deposits, usually held under government control in other countries, the general policy of private ownership of lands and private development, especially of our agricultural resources, was in our earlier days the wisest policy. In no other way could the great resources of the Northwest have been so rapidly developed and have thus become the foundation for a highly advanced and improving civilization.

6. *Conservation of natural resources.*—The time came, however, for a change in our governmental policy toward not only agricultural land but toward our other great natural resources forest lands; water, especially for irrigation purposes; coal lands; oil and gas lands; phosphate lands and water power sites.

Mr. L. C. Gary in the *Quarterly Journal of Economics* (May, 1913), makes an interesting classification of natural resources.

1. Those which exist in such abundance that there is no apparent necessity for economy, either in the present or the future; for instance, water in some localities.

2. Resources which will probably become scarce in the remote future, tho at present they are so abundant as to have no market value; for instance, building stone and sand in some localities.

3. Resources scarce even at present:

- (a) Not exhaustible thru normal use: water powers.
- (b) Necessarily exhausted thru use and non-restorable after exhaustion: mineral deposits.
- (c) Necessarily exhaustible thru use but restorable: forests, fish.
- (d) Exhaustible in a given locality but restorable thru the employment of other resources or of similar resources in other locations: agricultural land.

The absolute limits of conservation are now apparent. Society is confronted by the same choice that accumulation imposes on the individual: a choice between present satisfaction and future satisfaction. Moreover, conservation requires that individuals lessen their consumption today in order that other individuals may enjoy the results of the abstinence. The ethical field is to be widened to include unborn generations. Individuals are not anxious to curtail present enjoyment.

7. *National conservation commission.*—President Roosevelt in May, 1908, called a conference of governors at the White House, and later appointed two important commissions to study conservation of our national resources. Since then there has been steady progress in the direction of conservancy.

8. *Reclamation service.*—In 1902, the Federal Reclamation Act was passed providing for the construction and operation of works for the irrigation of arid public lands in the West under the supervision of a Bureau of the Department of the Interior. When this land is taken up under the Homestead Law by actual settlers, they repay the cost in ten annual in-

stalments; the works then becoming the property of the settlers.

9. *Government grants land to states.*—New states have regularly received land for the support of common schools, and since 1850 some 60,000,000 acres of swamp lands have also been granted to the several states to be reclaimed. Even larger tracts have been given in aid of canals, turnpikes, levees and other public works, especially railroads. Coal and iron lands pass with railroad grants. Mineral lands are reserved from all grants.

10. *Public parks.*—One of the most interesting and important uses that have been made of the public lands has been the reservation by the United States Government of some vast tracts, usually those containing some of the noblest and most beautiful mountain scenery in the country, as public parks, with the expectation that the primary use to be made of these parks shall be for recreation or out-of-door rest. Most of them contain scenic wonders, in some cases archaeological ruins, and in many instances also important mineral deposits. In 1906, an Act of Congress authorized the President to reserve by proclamation as national monuments such public land as contained historic land marks and other places of historic and scientific interest. Under this Act there has been brought under the control of the United States such natural wonders as the petrified forest of Arizona, the Grand Canyon of the Colorado and Mount Olympus in Washington.

11. *Plans for conservation.*—The Secretary of the Interior, Mr. Franklin K. Lane, has made a very careful study of the conservation situation and has prepared detailed plans for carrying out the Government policy. These plans apply in several ways the principles of conservation thru leasing. Coal lands would be leased by competitive bidding; railways might mine, but only for their own use; reservations would be held by the Government for the army and navy; small homesteaders would for a time pay no royalties; the Department of the Interior would be given large discretion and would be expected to make provision against fraud and collusion. The water power and irrigation projects contemplate the private use thru leasing not only of coal lands but also of oil, gas and other such natural products, together with the provision for conserving the radium bearing soils. It is to be hoped that these measures will be promptly put into effect and conservatively and wisely carried out. With the Government are cooperating in these efforts many of our public spirited private associations such as the Chamber of Commerce of the United States, and there is reason to believe that by the concurrent action of business men and Government these resources will be conserved and at the same time properly and wisely used.

12. *Importance of agriculture.*—Agriculture is and always has been the most important single industry in the United States, totaling in value of product for the year 1914 over \$9,873,000,000.00. Under normal

conditions a bumper crop or a failure reacts upon all kinds of business and for this reason the attitude of the Government toward agriculture is vital.

The encouragement and assistance given to the farmers by the state in the last fifty years has been one of the best examples of constructive efforts carried on by our Government, and is a concrete illustration of the almost limitless possibilities that may follow intelligent action of the states, systematically carried out for the benefit of industry.

The manner in which state aid has been given to agriculture is somewhat complicated, owing to the fact that the work may be carried on jointly by Federal, state and local governments, or by any one of these separately.

13. *Fields of government activities.*—For our purposes we may divide the active participation of the Government in the field of agriculture into three groups: (first) those dealing with the alienation of public domains, that is the granting of land, or the bringing together of the farm and farmer; (second) that group of activities which has to do with scientific production, the introduction of chemistry, physics and botany; the experimenting to determine the type of plant best adapted to a given locality, or the developing of new species of plants, the relation of soil to crop production, the establishment of a system of education designed to give practical instruction in agriculture; (third) the efforts made to solve new problems arising from changing conditions, more particu-

larly the social and economic problems which have come with the transition from a self sufficing industry to a business type of farming. In making these divisions, it must be kept in mind that the three types of activity may be going on at the same time, and do not necessarily represent successive stages.

Not only has the Government been active in bringing the land and the farmer together as has been shown, but its interest has extended to the cultivation of the soil. The former feeble and unorganized efforts to improve agriculture gave way in 1862 to a definite, systematic and wide-spread movement that came as a response to the growing demand for better agricultural conditions, especially in the older states which found themselves in keen competition with the new West whose products were seeking the eastern market made accessible by the extension of means of transportation.

14. *Department of Agriculture.*—In 1862 the Department of Agriculture was created. Its importance and possibilities were quickly recognized and a few years later, 1869, it was raised to a cabinet position. In the earlier period attention was directed almost wholly to production. To increase the quantity and quality of farm products was the immediate problem to be solved, and various bureaus were created to attain this end.

15. *The Bureau of Animal Industry.*—The work of the Bureau of Animal Industry embraces problems of every kind relative to live stock. Many animal

diseases such as blackleg, Texas fever and foot and mouth disease which had assumed alarming proportions have been investigated and methods of cure have been discovered. In addition to improving the quality of animal products and treating diseases, the division has carried on the very important work of meat inspection which makes it possible to export dressed meats to any part of the world.

16. *Bureau of Plant Industry*.—For plant production the Bureau of Plant Industry does what the Bureau of Animal Industry does for animal production. Thru its representatives it has explored the world for new plants adapted to climatic and soil conditions in the United States. More than 30,000 kinds of fruits and vegetables have been discovered and introduced, most of which can be used as food for human or animal consumption. By means of study in plant pathology carried on under natural conditions, scientists have been able to check plant diseases, and the result has meant a saving to the producers of many millions of dollars. It would seem obvious that if one wants good healthy plants, good seed should be selected, but it required the aid of the Department of Agriculture to demonstrate this fact to the farmer. Now by careful watching of seed sold on the market, great benefit has accrued thru improved crops.

17. *Colleges under the Morrill Act*.—In 1862 the passage of the Morrill Act created the Agricultural Colleges by providing for an amount of land to be



apportioned to each state equal to 30,000 acres for each Senator and Representative in Congress under the census of 1860. This endowment was further increased in 1890 by an annual cash payment of \$25,000 to be applied for instructional purposes.

18. *Agricultural colleges.*— While considerable attention was given in these colleges to the application of science to agricultural production, one of the most important functions of the college was to give practical instruction. In the main the practices of farming that prevailed were those inherited from former generations, in many cases applied under totally different conditions. To ask why things were done after a certain manner did not occur to most farmers. Moreover they resented the suggestion of academic advisers. The purpose of agricultural education was twofold. One was to afford a type of instruction having educational and cultural value, the other was that the young men and women should become familiar with the basic sciences and understand why certain scientific methods of farming were better than the old chance ways. The colleges have more than met this expectation. By adapting courses to meet the needs of the students, by instituting short courses during the winter for those unable to attend for a longer period, and by adding the regular college courses they have developed a very much higher type of farmer, not alone in respect to his methods of tilling the soil, but in his general manner of living.

19. *Hatch Act experiment stations.*—As the impor-

tance of scientific farming became more apparent, greater interest was manifest in extending investigations to every branch of this industry, and to meet this need the Hatch Act was passed in 1887 which established the experiment stations in connection with the agricultural colleges. Congress appropriated \$15,000 annually for each station, which amount was later increased to \$30,000 by the Adams Act of 1906. The object of the experiment stations is given in the enabling act as follows:

That it shall be the object and duty of said experiment stations to conduct original researches or verify experiments on the physiology of plants and animals; the diseases to which they are severally subject, with the remedies for the same: the chemical compositions of useful plants at their different stages of growth; the comparative advantages of rotative cropping as pursued under the varying series of crops; the capacity of new plants or trees for acclimation; the analysis of soils and water; the chemical composition of manures, natural or artificial, with experiments designed to test the comparative effects on crops of different kinds; the adaptation and value of grasses and forage plants; the composition and digestibility of the different kinds of food for domestic animals; the scientific and economic questions involved in the production of butter and cheese; and such other researches or experiments bearing directly on the agricultural industry of the United States as may in each case be deemed advisable, having due regard to the varying conditions and needs of the respective states and territories.

With these resources it was possible to command the best scientifically trained men to carry on the experiments and publish their results. Without

elaborate equipment and ample means it can not be done. Most of the investigations require several years to complete. Conditions vary so from year to year that, in order to prove the experiment, these changes must be controlled. Not even the most completely equipped could conduct an investigation on so large a scale, and few farmers could have conducted the experiments however able financially because of lack of training.

Many of the most important changes in methods of farming are the results of investigations carried on and demonstrated by the experiment stations. Before any real effort could be made to conserve soil fertility, some definite knowledge of how the soil worked to produce a crop was necessary; what the function of bacteria was; the relation of humus to soil fertility; the chemical character of soil whether acid or alkaline, and so on. While several fertilizers in the form of barn manure had long been used, there was no accurate knowledge of the subject and often the fertilizer had no relation to the needs of the soil or of the crops. As a result of this study it has been possible to renew soil by the cultivation of plants which produce nitroifying bacteria in large quantities and by other methods of reclaiming worn-out land. The farmer has learned that he cannot always be taking fertility away without restoring some in another form.

For several years special attention has been given to a study of how to prevent or destroy harmful

insects such as the sugar beet louse, woolly aphid, or the insects that attack stored grain. Closely allied to this is the work on such plant diseases as potato scab, cereal rust, wheat smut, apple blotch, and tomato blight; of determining the reason why threshing machines are being blown up by smut explosions and the planning of a method of control. In practically every difficulty the farmer has expert services immediately at hand, and if the problem is too large for local forces to handle, he may call upon the larger resources of the Federal Government.

20. *Farm management.*—Beginning with the establishment of the Department of Agriculture and the Land Grant Colleges, the assistance rendered the farmer by the Government has been toward increased production and improved quality. To this end the best science had to offer was furnished almost without money and without price. In the changing industrial conditions agriculture also underwent a transformation. It became a business upon the successful management of which depended the well being of the farmer. Agriculture required the same careful management necessary in other industries, but there were no data which could be used. To secure information that would enable the farmer to conduct his business as other business men do, the Government created the division of Farm Management. So far as possible the division has carried on experiments covering a period of years to determine the best method to follow. It had also tried to secure the de-

sired information from successful farmers who typified all conditions and combinations of farming. Surveys have been made covering certain areas, and results show how much the farmer has realized on the year's operations; the size of the unit; the amount of live stock and kinds of crops and the general type of farming conducted. From these data covering a large number of farms conclusions are drawn which determine the proper method of farming under given conditions. A second and third survey is usually made to verify these deductions. As a result it has been possible to work out general principles that will guide the farmer in determining what kind of farming he should engage in, the amount of land necessary for the most efficient unit, and also the amount of capital required in the form of live stock, machinery and equipment.

21. *Institute work—Smith-Lever Bill.*—It has been the policy of the agricultural colleges to carry on institute work. The great possibilities for good that might come from carrying the results of the work of the colleges and experiment stations to the farmers themselves, led in 1914 to the passage of the Smith-Lever Bill. Its purpose is to diffuse among the people useful information relative to agriculture and home economics. To finance this cooperative extension work Congress set aside \$480,000 from which a sum of \$10,000 is to be paid each state which will appropriate an equal amount; either state, county or agricultural college funds to be expended in car-

rying on the extension work in that state. This sum of \$480,000 is to be increased each year for seven years to a total of \$4,580,000 yearly appropriation.

22. *Extension teaching.*—In planning the work of extension teaching, the widest interpretation is given the words Agriculture and Home Economics. These terms include all problems pertaining to the welfare of agriculturalists either in the home or in the field. A trained force of teachers selected especially for this type of work are conducting lecture and demonstration tours over the states all the time. The demands for their visits are still greatly in excess of their ability to meet them. The farmers gather in great numbers and are eager to learn better methods. The housewives are taught better ways of preparing food. One lecturer may devote his entire time demonstrating a cheap and efficient method of furnishing running water in every household, which will greatly lessen the burden of the housewife.

The extension work has expanded to include rural engineering, dealing with problems of power on the farm, proper sanitary equipment, rural architecture applied to houses and barns and to economic and social problems, such as marketing, rural credit, rural organization and the socializing activities of a rural community.

23. *County agents.*—Still another method of helping the farmer in a practical way is thru the county agent, who advises the farmer on all methods pertaining to the conduct of his business along lines

approved by the best authorities. These agents may be college professors or successful farmers. It is not an easy task to persuade the average farmer to abandon his inherited method of farming for some book theory. Most of the agents have made their way, not by insisting, but by patient persistent pressure to bring about changes desired. It is the duty of the expert to advise on matters of health of stock, of the policy to pursue on farm crops, of farm management and a mass of details connected with the particular types of farm enterprise found in his county. He is especially helpful in arranging for extension work and in encouraging boys' and girls' clubs and school fairs. The gap between the college and the farmer is thus bridged by the man who is trained in the college and brings that training directly to the farmer. He is not content with telling the farmer how, but shows him how and helps him until he masters the art of improved agriculture.

24. *The marketing problem.*—Within the last few years the task of marketing farm products economically has become increasingly more difficult and is now considered one of the most serious questions in agriculture. The gains that have been made thru improved methods are lost to the farmer because of poor and inadequate methods of marketing. With the object in view of improving methods, a division of marketing was formed within the Department of Agriculture in the spring of 1918.

The first work undertaken was the establishing of

standard grades. With the exception of agricultural products almost every article bought and sold—salt, lumber, steel—conforms to some standard.

Studies have also been made of supply and demand for certain products at given points and during the shipping season a force of reporters work in the more important market centers of the country in an effort to divert shipments to points of greatest demand. Transportation and storage problems have been carefully studied in an effort to avoid seasonal fluctuations of perishable commodities and to furnish a more even supply. The department has carried on experiments in marketing by parcel post and express in an effort to bring producer and consumer closer together. It has determined the zones within which marketing is profitable, the kinds of produce to ship and how to prepare them. Extensive investigations have been made in the systems of marketing dairy products, live stock, and animal by-products for the purpose of suggesting ways and means by which they may be improved and the cost reduced. Since a large percentage of the expense and waste in the distribution of food products occurs in the retail markets, the work included also an investigation of all commercial methods of distributing and marketing food products in the cities.

One of the greatest services that the state can render the agriculturist is in assisting in the solution of this complex problem of marketing the food supply. It is too big for any group of farmers and can be



handled successfully only by the largest and most resourceful agency possible.

25. *Farm capitalization.* — Another important aspect of government aid to the farmer is the question of proper capitalization of farming enterprises. For the most part, if the farm had produced a living for the owner and his family, that was all that was expected. Now, since farming is taking its place with other forms of scientific production, adequate capitalization must receive attention. Credit facilities have existed primarily for commercial enterprises and the facilities for making loans were adapted to undertakings in which the capital was ordinarily released within a comparatively short time. Agriculture, on the other hand, requires a long time before capital expended may be returned to the industry. For example, capital outlay in improvements such as drainage, irrigation, fencing, planting orchards and the like matures very slowly. Expenditures on live stock may require the use of capital for from two to ten years. The Department of Agriculture thru the division of Rural Organizations, made a thoro study of credit conditions, including rates of interest paid, the length of time the loan was required, the need for capital and the most adequate method of financing the farmers. As a result of this study, and research of the experience of European countries, legislation was passed designed, with the direct aid of the Government, to make capital available to the farmer for a greater length of time and at a

lower rate of interest than he had been paying. In addition to this legislation the state renders valuable assistance to the farmer in advising him how he may wisely use credit and, so far as possible, in instructing him in the complexities of credit and finance.

26. *Improvement in rural conditions.*—Not content with giving help in business and financial matters, the Government has created a division of rural organization, the work of which is to create better social, educational and religious conditions in rural communities. The desire is almost universal among farmers to leave the country and move to the towns and cities. The main reasons given for abandoning the farm are the absence of attractions in the country, poor schools, bad roads, hard work for men and women. Efforts are now made thru existing agencies to enrich the social life of country districts by organizing societies which stage plays, arrange debates and in general bring about social gatherings designed to break down the isolation and distrust so prevalent in the country. Labor saving devices are being demonstrated for use on the farms. The work of the Government rural engineers is directed toward the improvement of country roads. Experts are drafting systems of education that will meet the needs of the agricultural population and the state colleges are holding special sessions for country ministers to give them some of the gospel of rural economy and to make them leaders in the economic, social and religious life of their respective communities.

27. *Future activities of Government.*—Without reserve the Government has set before itself the economic and social improvement of farming and as results are secured from energy and means now expended new and larger enterprises will be undertaken, for on the whole more efficient farming and more economical marketing are quite as important to the consumer as to the producer. Much remains yet to be done, much to learn from other countries; but even in its present state of development, the Government's aid to agriculture is one of its greatest services.

#### REVIEW

Why have land questions throught all history been important politically?

In the Middle Ages what were the influences that tended toward the concentration of large estates in private hands?

Why did it become necessary in the United States for the Federal Government to take positive action regarding the conservation of natural resources?

What steps were taken in that direction by President Roosevelt?

Consider carefully the advantages of our system of National Parks.

To what extent should our natural resources now conserved in our forest and land reservations be opened to private individuals for exploitation and use?

Under what conditions should private individuals be permitted to make use of these natural resources?

Agriculture is frequently spoken of as the most important industry. From your study of economics, what reasons are there, if any, for considering it more important than manufacturing, or transportation, except the number of persons engaged and the investment?

Outline briefly the work of each of the different important divisions of the Department of Agriculture.

What are the main provisions of the Morrill Act and in what

ways has this Act been conducive to the development of agriculture and to military training?

Does the work of the extension teachers and the county agents have any effect toward pauperizing the farmers as a special class?

Outline briefly the main provisions of farm credit institutions.

What activities of the government have tended toward checking the migration of farmers to the city?

Taking the permanent welfare of the country as a whole into consideration, is the migration from the rural districts to the cities to be deplored or commended?

## CHAPTER IV

### GOVERNMENT PROMOTION OF INDUSTRIES

1. *The tariff and politics.*—No other topic has been more frequently a subject of political controversy in the United States than governmental activity in promoting special industries, especially by means of the protective tariff. The fact that the tariff has been likewise one of the chief sources of revenue has only tended to confuse the issue and at times to embitter the controversy. As long as certain classes of the population would seem directly to benefit from the tariff, others would surely oppose whether wisely or unwisely. This experience is, of course, not confined to the United States. Wherever the protective tariff exists, however firmly fixed in the policy of the country, such contests are sure to arise. In free trade countries there are always industries wishing protection so that the subject is one of perennial and universal interest and importance.

2. *Tariff systems.*—The single tariff. It will serve to clarify the discussion if we note at the beginning the three systems commonly recognized. (a) The single tariff. Under this system only one schedule of duties is imposed, no discriminations being made among countries. In exceptional cases like China there may be only one rate for all articles imported,

the country having bound itself by treaty. Before China was accustomed to foreign trade she agreed with foreign nations to levy a duty of only five per cent *ad valorem*. These were then converted into specified duties. Since prices have greatly risen, the yield is now only some three per cent. Yet in spite of debt and hardship the foreign powers have held China to the sum "mentioned in the bond."

The United States with a great variety of duties, many of them at very high rates, nevertheless retained the single tariff until the year 1909.

(b) The general and conventional system. Many important countries have made concessions to certain others in their commercial treaties. Thru the application of a "most favored nation" clause, lower rates than those agreed upon in general schedules are given to certain countries. Other countries outside this group pay the rates named in the general schedule. Germany since the year 1891 has applied this system.

(c) The maximum and minimum system. This consists of two schedules like the general and conventional system. The maximum tariff corresponds to the general tariff, the minimum to the conventional one. The difference lies mainly in the minimum schedule, and the authority by which it is applied. The minimum schedule is composed, of a fixed list of rates of duty determined by law, not by the treaty-making power. In negotiations with other countries the executives, in making a commercial treaty, may

not go below this minimum schedule, but they may apply that to countries entitled to "most favored nation" treatment. This system was adopted by France in 1892 and from 1909 to 1913 with some modifications by the United States.

3. *The mercantilists and the theory of protection.*—The origin of the theory of protection is to be found as early as the Sixteenth Century when England and the other countries of Europe were each endeavoring to secure a favorable balance of trade. This economic policy centers around what is known as the mercantile theory, under which it was considered that it was highly important to possess and keep within the country a large amount of precious metals; that foreign trade was of more value to a country than domestic trade; that the manufacturing industries were of more importance than the extractive ones, and that a dense population is an element of strength to a country. It was believed further that manufactures make possible a dense population, lead to an export trade of large value, and offer unlimited opportunities for business enterprise. In order to further this policy, the mercantilists (as statesmen, merchants and other believers in this theory were called) considered state action in the form of protective duties, bounties, restrictions or other artificial aid, necessary for the development of manufacture and trade.

4. *Alexander Hamilton's views.*—Alexander Hamilton was the originator of the protective tariff system in the United States. In no case, perhaps, do we

find a better illustration of the political influences that enter into an economic question than in this one. Hamilton, as we see from his celebrated reports on public credit and on a national bank, was too clear headed to accept in full the doctrine of the mercantilists as it applied to money. Many of the founders of our Government were firm believers in that theory in part and it is likely that Hamilton was so influenced. In his report on manufactures, presented to Congress in 1791, he noted the difficulty that an industry has in meeting competition from abroad, especially if foreign competitors have an advantage in previous possession of the ground or aid from their government. In another part of the report, he definitely recommended the grant of bounties, free admission of raw materials, and general protection to manufacturers within the country.

In his arguments, however, he had chiefly in mind the political policy of strengthening the central government by bringing to its support the great business interests. The main reason, therefore, which led to recommendation was probably political. In common with Washington, he considered it of the utmost importance that the central government be firmly established. The debates in the Constitutional Convention had shown clearly the reluctance of very many citizens to yield any of the sovereignty of the separate states to the central government. To give the nation the standing that they knew to be essential in order to secure proper respect abroad and to establish it



on a sound foundation for future growth, it was desirable to win to its support the intelligent business interests of the country. The adoption of the protective system would immediately rally to the nation's support those who would benefit by such a tariff and these would normally include a large proportion of the men desired.

5. *Conflicting economic interests.*—In later discussions thruout our history the direct economic interests of the various parties likely to be affected by the tariff are always seen. With the single exception of the slavery question, the tariff more than any other has tended to divide the country on sectional lines. The southern states until after the Civil War, were practically entirely agricultural, producing largely cotton for export or for shipment to the North. As there was practically no import of cotton and other goods that would come into competition with their products, they needed no protection. Any tariff would tend toward increasing prices of the articles they consumed without having any effect toward raising the price of the goods that they produced. Therefore, they were free traders. In the North, manufactures were rapidly developing, even the manufacture of cotton. These manufactured goods were subject to competition from Europe and the new industries had to overcome both the difficult conditions of building up new industries with small capital and of doing this in the face of vigorous competition. The North, therefore, desired protection.

The division is not one-between agriculture and manufacture, as is often assumed, but between articles not subject to competition and those in competition.

Farmers demand protection where they must meet competition. The Corn Laws in Great Britain were not abolished by the will of the farmers, but because the great manufacturers in Manchester, Birmingham and Leeds got the upper hand. It should be remembered that Cobden and Bright, with all their patriotic eloquence, were cotton manufacturers representing manufacturing districts. In Germany the farmers have been protected against the competition of America by protective duties, and the German agitation against the importation of pork from America had economic protection as well as defense against trichinae as an impelling motive.

Political principles are often born of economic advantage. It is not the intention to question in the least the sincerity or the patriotism of those who advocate measures which tend to their business advantage, but human intelligence is limited, the range of most men's experience and political vision is narrow; a man naturally sees his own interests more clearly than those of his neighbor. It is but natural for him to assume that what benefits him will benefit the community at large. Usually it is only those without direct economic interest in a public question who see that question in all its bearings. Such men are few. It is, therefore, desirable that in our legislative bodies, members standing for all interests be present so that

the opinions represented will be approximately those of the entire nation.

6. *Principles of tariff legislation.*—Scores of books have been written advocating and opposing the protective system, the free trade system, all kinds of tariff systems. No system is all right or all wrong; there is a middle course. It will suffice to present a few fundamental principles generally accepted by the impartial authorities who have no interest in partisan controversy.

7. *Classification of products.*—For the consideration of the tariff it is well to divide the goods produced in any country into three classes: (a) Goods produced to better advantage in the home country than in any foreign country. Such goods, it is evident, need no tariff for protection, nor would a duty levied upon such goods yield a revenue of importance. Only when some foreign territory is so situated that it cannot find another market for its goods will they be sent into this country, and such cases are very rare. A tariff levied on such goods is usually purely political, intended to offer protection when none is needed.

(b) Goods produced in the home country only under conditions permanently unprofitable. As yet it has not been found practicable to produce commercially, tea, coffee, cinchona bark or rubber in this country. A duty levied on such goods, therefore, would have practically no influence toward building up an industry. Such a duty, would not be protective, but would be a duty that would yield a large

revenue provided the articles such as those mentioned were practically necessities. Goods of this type make the best basis for a revenue tariff.

(c) Goods adapted to production in this country but also produced as cheaply or possibly more cheaply, for the present at least, in foreign countries. Import duties levied on goods of this type will produce a revenue unless the rate is so high as to prevent importations entirely, and they will also furnish protection to the industries established here, inasmuch as they tend strongly to check importations and thereby lessen competition. All discussions on the tariff, therefore, center upon this third class of industries. Most of the leading arguments on both sides have a certain degree of validity. The policy to be adopted by any country is not simply for or against protection. It is multi-form, the validity of the arguments varying with every schedule, with almost every article considered. No two different articles are produced under exactly the same competitive conditions. To attain the ideal system therefore, each article would need a separate treatment. As a matter of practical legislation, however, only an approximation to the ideal can at the best be secured and schedules must be constructed, therefore, for great groups of articles more or less similarly situated.

8. *Infant industries.*—In the early days of manufacture in this country a favorite argument was that infant industries should be protected. In the beginning of an industry there are large expenses of secur-

ing capital, the training of the labor force, the securing of a market, the building up of good-will and other like difficulties. Men argued that an industry should receive support by checking foreign competition for a time, and that when the infant grew up the protective hand might be removed. The opponents, of course, called attention to the fact that the protected industries were never ready to surrender the tariff.

How high should such a tariff be? How long should it be continued? In what way should it be removed? Clearly the same rate would not apply in all industries. The rate should be high enough to overcome the advantages of the foreign competitor or the principle of protection would not apply. But a tariff high enough to divert capital from investment in old established industries into one new and untried must insure profits from the beginning. Under these circumstances it is certain that some establishments will be built in the most advantageous places where the profits are high. Others will be set up where conditions are less favorable and sometimes they will have less skilled management. In these circumstances even after the difficulties of the beginning have been overcome there will still be establishments with little or no profit, even tho those best situated are reaping high profits. The demand for the lowering of the tariff, therefore, is bound to be vigorously opposed and the cry that its removal will close factories, throw men out of employment, cause suffering, is perfectly true.

Herein lies the difficulty under our system of legislation. Doubtless the difficulties of establishing a new industry are such that a country might well pay higher prices for a time to secure later the benefit of a sustaining industry that would need no further help. But, with our system of passing tariff laws, such a result is extremely difficult of attainment.

9. *Who bears the burden of the tariff?*—Some extremists have asserted that the tariff is a tax which the consumer pays. This is true for goods not produced in this country, the tariff tax is added to the regular price of the goods. It is generally not true to the full extent in other cases. Extremists on the other side assert that the tariff is a premium paid by the foreign producer for the privilege of selling in this country. This has been true in certain cases where the foreigner needed to enter this market, either to dispose of a surplus stock or to avail himself of the one possible market. Some years ago, for instance, the producer of wheat in Manitoba before the Canadian railways were built, had to market his crop in this country. The market price was fixed within our country by local conditions and the price at the border was less than that in this country by the amount of the tax. Wheat with the tariff at \$.25 a bushel would sell at \$.25 less on the Manitoba side of the boundary than in Minnesota. The foreigner thus paid the duty.

Certain other classes of goods, such as woollens, are manufactured here in part; in part they are imported.

In these cases the foreign producer in order to force his way into our market against our competition, has usually to lower his price somewhat, altho generally not to the full amount of the tariff. The burden is thus borne in part by him, in part by the American consumer. How the burden shall be divided depends upon the relative demand and supply. If, for any reason, our supply is short so that prices go up and we must have the goods to meet our needs, the American consumer will pay most if not all the tax. If, on the other hand, our market is fairly well supplied by the home producer and the foreign producer has a surplus, he must cut his prices in order to get into our markets. He will then be carrying most or all of the duty. The changing conditions of the market shift the burden, but it is fair to say that speaking generally the consumer bears a considerable part of it.

10. *How far should a country be self-sufficient?*—Many argue, however, that even tho the tariff be a burden upon the consumer, it is wise to bear it in the case of many products, in order that the country may be self-sufficient, especially in time of war. This was one of the arguments given thirty years ago in Germany for maintaining the duties on grain as well as for building up many diversified industries. This is an argument advanced now in this country for Government ship-building yards, munitions plants, establishments for the building of armor plate, powder mills and of numerous other plants to

supply our wants in time of need. The argument is emphatic in these days.

11. *Education and diversification.*—Other industries are supposed to have in themselves a cultural or educational value aside from advantage in times of conflict. It is, however, always a question whether a country gains more by excluding foreign competition and attempting to supply itself or by getting the benefit of foreign training thru the removing of obstacles to the influx of foreign ideas by the importation of foreign products.

Our artists and lovers of art smile disdainfully at a tariff on pictures, and our highest protectionists have not ventured to limit the importation of ancient or medieval art. But even those who would admit free art and artists, including operatic stars, (for they are exempt from the provisions of our contract labor law) would often not argue for the free admission even of the most artistic modern furniture or indeed of any series of such products. They fail to see that the manufacture of such products would give to the country a wide diversification of industries in the employment of which our citizens would become skilled workmen in many lines. Skilled artisanship tends to stimulate invention and to produce competent and adaptable workmen whose services will fill a genuine need and increase many times, perhaps, the productivity of their labor. Diversified industries not only satisfy a wider range of human needs, but by furnishing an opportunity of employment to all kinds



of talents doubtless increase the productivity far beyond what is possible among people practically all of whom are engaged in like lines of activity.

12. *Diversion of capital into less profitable industries.*—If a protective tariff is really needed for any industry in order to enable the producers to secure higher prices than would be possible in competition with foreign goods, capital is drawn from industries normally yielding high profits into one's making lower profits before the duty is levied. Provided, however, that the industry is well chosen as one adapted to the country but having to overcome the difficulties of starting production, and provided further, that the tariff is scientifically levied and in due time removed, it is probable that a new industry will be established that raises the total productivity of the country.

13. *Effect of a tariff on wages.*—The wages that can be paid in any industry are directly dependent on the economic productivity of that industry. If it is run with low profits, wages must be relatively low in costs however high in money rates. If the gains are high, wages may well be raised. In accordance with the principles of a protective tariff, it is clear that as long as a protective tariff is really needed to prevent an industry from failure, that industry is not raising the total economic product of the country. That is not saying that the protective tariff may not be justified. The industry may be new and this condition merely temporary. The industry may be one needed for the country's defense, or

for its education, or other good reasons may be found for its maintenance. But, if the tariff is needed for the industry's maintenance, it does not for the time being increase the country's total economic product.

Again, an increase in the price of one product, such as will be caused temporarily at least by a protective tariff, increases the cost of living of all persons in the community who consume that product. Taking industry as a whole and wage earners as a whole, it is not possible for the reason just given that a protective tariff can raise the general level of real wages (that is, the goods purchased with the money wages) so long as the tariff is needed to maintain the industry. It is true that a tariff may enable the economic product of any one industry to be decidedly increased and the money wages or even the real wages in that industry may be increased, but the general level of all real wages, it is evident, cannot be thus increased.

The chief causes for high wages in the United States have been:

(a) The influence of our free land for agricultural development. The large profits derived from agriculture set a standard for wages in other industries.

(b) In certain industries American labor is exceptionally efficient, especially on account of the intelligent use of machinery and the standardization of the products. High wages do not necessarily mean high cost of production; frequently the opposite. We can, therefore, compete against European labor in many

instances in the production and exportation not only of grain and meats but also of agricultural implements, boots and shoes, typewriters and sewing machines. The determining factor in American high wages is not the tariff, but free land and high productivity of labor. Nevertheless, the tariff is the reason for high wages in probably thousands of separate establishments, and it might well be that a sudden change in the tariff would throw thousands out of employment and bring about wide-spread disaster.

14. *Home market.*—The home market theory of protection has been handed down since the days of Hamilton, Madison and Monroe. One argument of Hamilton's was to the effect that the surplus products of American farmers should be absorbed thru the creation of a home market.

In its modern guise this argument holds that by checking imports a home market is created since things previously imported must now be made at home to supply the demand. The argument, as in the early days, makes a special appeal to the farmers and attempts to show them that thru the establishment of manufactures comes a great demand for agricultural products.

It is true that the checking of imports creates a home market. But the market created is not an additional market. It is a different one. With the creation of the home market comes the dwindling of the foreign market since exports are always paid for

with imports. Home exchange is thus made to take the place of foreign exchange, with a presumable saving of freight and quite possibly of labor. There may, however, be a net gain. Whether there is a net gain will depend upon relative prices and relative productivity of labor.

15. *Do protective duties cause slackening of industrial progress?*—Again, from the standpoint of progress made in industry many claim that protection thru the removal of competition tends to make industry stand still; that it removes the spur of incentive; that equipment which would be scrapped and methods which would be abandoned under the competitive methods of free trade are kept under a policy of protection. Such a contention overlooks domestic competition which is usually strong, unless there is a monopolistic combination. Then it may be right. In order that a country may keep in the front ranks of industry it must improve constantly its equipment and eliminate all methods of carrying on business which are not the equal of those used in other industrial countries. But this principle is followed by the best producers at any rate, regardless of competition, either domestic or foreign, when it is clearly shown that costs of production can be lowered.

16. *Foreign trade a small part of total trade.*—In any consideration of the tariff it must be remembered that the foreign trade of any country forms a comparatively small part of its whole trade. Since the Civil War the total foreign trade is said to be less

than one-fifth of the business transacted in the United States in 1915. The domestic trade of this country caters to the wants of more than one hundred millions of people, so that the trade between our several states constitutes the greatest free trade area in the world. The value of our railway receipts mounts up yearly into hundreds of millions of dollars and all but a very small amount comes from the transporting of domestic commodities.

17. *Tariffs exert small influence on industry.*— Moreover, the utmost effect which tariffs can exert is but relatively small. The English economist Nicholson says: "Protective duties and bounties at the best can only direct the employment of a comparatively small amount of the labor and capital of a country; the greater part will be employed according to the natural and acquired advantages of the country relative to those of other countries."

These uncertainties make our tariff system very unreliable as a source of income and make it advisable that we have some tax that can readily be varied in order to act as a balance wheel. This is necessary in order to adjust our revenue to our necessary expenditures so as to balance our budget from year to year. The income tax has been the English balance wheel, as a slight increase or decrease in the rate can enable the Chancellor of the Exchequer to increase or decrease his income by very exact amounts to meet his needs. Our internal revenue tax might have been so used, but we may perhaps now use to this end our Income and

Inheritance taxes, tho the latter might better be left to the states.

18. *Chief objection to tariff.*—The chief objection perhaps to our tariff system is not so much the burden on the tax payer as the effect upon our industrial development at times of the unscientific levying of the tariff under political pressure and the log-rolling system that under the circumstances are almost unavoidable. The establishment of a tariff commission, advocated by the leaders of both political parties for a number of years, ought to go far to remedy this evil by furnishing much more nearly accurate knowledge regarding conditions of production and demand, both in this country and abroad, than it is possible for congressional committees to secure in the short period in which they must complete their work.

19. *Machinery of tariffs.*—The collection of duties on commodities entering the United States is intrusted to the customs service. For this purpose the country is divided into a large number of customs districts, in each of which there is at least one port of entry where are stationed the collector of customs, appraisers, surveyors, inspectors, special agents and in some cases a naval officer. Other ports of entry are designated if the needs of business make it necessary.

New York is the largest port of entry; over two-thirds of our foreign commerce comes thru this port alone, at which the customs service employs more than five thousand men.

Goods imported are examined and appraised at the custom-house, the public stores or appraisers' warehouse. In cases of dispute arrangements are made for proper appeals to see that exact justice is done.

20. *Goods under bond*.—In case the importer does not care to withdraw his goods at once he may deposit them under bond in a warehouse for any time up to three years, and defer the payment of duties until the withdrawal.

If the importer wishes to put his goods in a manufacturing warehouse he is permitted under bond to do so. There he can manufacture articles made from imported materials subject to revenue tax. The goods manufactured, however, must be re-exported. This system corresponds to the "free port" system of some European seaports and has proved to be a great stimulus to our export trade.

A drawback is a refund of the whole or part of the duty paid on importation in cases where the merchandise is subsequently re-exported within three years in the original package of importation.

21. *Kinds of duties*. (a) *Ad valorem duties*.—In the collection of duties three methods may be followed. Duties may be levied at a named percentage of the value of the goods imported. These are known as *ad valorem* duties.

This system, to operate successfully, requires collectors of tested honesty and efficiency and importers of high integrity, for there are many instances of attempted undervaluation, and just valuation requires

a large and highly trained body of men, as inspectors and appraisers, who keep constantly informed regarding foreign markets and importers, both by study and by the use of skilled detectives.

(b) *Specific duties*.—Specific duties are used much in Europe, little in the United States, except in combination with the *ad valorem* duty.

Specific duties are based on units of measurement, number, or weight—a certain amount in dollars or cents per yard or gross or pound, and so on. The tariff under this system must be framed with greater care for detail than under the other, but once framed is of course easier to enforce by collection officials.

(c) *Compound duties*.—The third system of duties, which was much in use in the United States until the passage of the Underwood Tariff Act in 1913, is the compound duty which consists of the specific duty to which is added a supplementary *ad valorem* duty.

This method endeavors to secure in combination the advantages of both systems and possibly may disguise the amount of protection given in the duty. This form of duty adds to its collection the difficulties of both systems, and thus both the making and the working of the tariff schedules become more cumbersome and costly than under either of the other systems.

22. *Bounties*.—A bounty has been defined as a premium paid by a government to encourage some branch of production or industry. Such a policy is often considered impolitic but is sometimes justified as a measure of state.



The best known example of bounty granted by the United States in recent years was the sugar bounty established under the McKinley Tariff Act of 1890.

The question of subsidies to shipping might well be considered in this connection, but this will be found fully treated in the Modern Business Text on "Foreign Trade and Shipping."

23. *History of the tariff.*—A thoro discussion of the tariff problems in any developed country should include a detailed statistical history of the effects of various schedules. The question is so complicated that it is impossible to predict with certainty what the result of any rate will be. Experience, however, may serve as a guide, and such experience should, of course, always be sought by legislators and students of the problem.

24. *Effect of the European war.*—The abnormal conditions created in this country by the European war have served to stir afresh certain phases of our tariff controversies. The revenues have been abnormally small. The opponents of the tariff, therefore, claim that the tariff has been unwisely levied. The warring nations have been taking counsel with one another with reference to the protection of their common interests after the war has ended. Presumably, favors will be granted by each group of allies to its own members as compared with outside countries. How shall we meet such new difficulties if they arise?

25. *Dumping.*—In many lines of industry it is probable that foreign governments have accumulated

large stocks. Will they attempt to break down certain of our new industries and to regain their lost markets by "dumping" upon this country these surplus stocks at prices below our cost of production? It is claimed that this was the policy followed by Great Britain after the War of 1812. Why should not such a policy follow this war? Fearing such a contingency, plans are already formulated to provide a defence against dumping, but there is no unanimity of opinion regarding the best measures.

26. *Economic independence of nations.*—The war has brought home to all countries the necessity of being able to feed and clothe their citizens and soldiery. Even prior to the war England and Germany were debating how means might be found to raise cotton so that they would be less dependent upon the United States for their supply. After the war countries with colonies will try to develop them in the old-fashioned way to become feeders of raw materials and food stuffs to the mother country. The development will probably be brought about by the adoption of a tariff union giving preferential treatment to colonial possessions by the mother country. In early days the situation has usually been reversed. Where the United States has been the source of supply for countries of Europe, the countries with colonies will look to them to produce food stuffs and other necessary commodities; the countries without colonies will make earnest and repeated efforts to raise such supplies at home. The slogan for all will

be "self sufficiency." Even the United States is feeling the need. The government is taking stock of our industries to see how they may be used to produce munitions. Some of our great business houses are aiming to secure a sufficient supply of rubber under American control. Other industries will be taken up; and the question is sure to revive the tariff arguments.

27. *A tariff commission.*—For some years leading men in both the great political parties have advocated "taking the tariff out of politics" by the appointment of a non-partisan scientific tariff commission. Owing to partisan strife in a late Republican administration, a permanent tariff commission could not be created, but an appropriation was made for the appointment of a Tariff Board to perform somewhat similar services and to make recommendations to Congress.

When the opposing party came into power it was eager to give immediate effect to its own tariff principles: the Tariff Board failed to receive its support and went out of existence. Now, however, this same party has made provision for a Tariff Commission which is to make a careful study in this country and abroad of industrial conditions with reference to specific industries in such a way that it may supply trustworthy data for the use of Congress. Such a board, with a conservative, trained personnel may well accomplish great good. Its aid was never more needed and probably at no time has public opinion

been more ready to accept its recommendations. It is to be hoped that it will be properly supported and its recommendations properly considered. This is likely to be the chief factor in any solution of our tariff problem.

#### REVIEW

What are the three leading types of tariff systems?

Who were the Mercantilists?

What was Alexander Hamilton's chief reason for advocating a protective tariff?

Why did the southern states oppose a protective tariff?

What classes of goods are best suited to a revenue tariff?

How far is the argument in favor of promoting infant industries by protective duties sound?

What are the reasons why a country should be economically self-sufficient?

Analyze briefly the common arguments to the effect that a protective tariff increases wages.

Explain the duties of the United States officials in connection with the importation of goods.

What is a bounty as contrasted with customs duties?

Indicate briefly the effect of the present European war on tariff sentiment in the United States.

## CHAPTER V

### PROMOTING FOREIGN COMMERCE

1. *Cooperation of the government in foreign trade.*  
—The American business man, occupied as he was in the upbuilding of domestic industry and commerce, was not until recently vitally interested in special means for the development of foreign trade. Home markets were rapidly expanding, little need for foreign outlets was felt. Exports were largely composed of natural products and these were demanded rather than sold. Now America is coming to realize the insistent need for foreign markets. The European war plunged the American business man into the arena of world trade, opened his eyes to the value of an expanding export business and directed attention to measures for retaining present trade and for securing more. As President Farrell of the United States Steel Corporation has well said, "One week of European war did more than ten years of academic discussion to convince the American people that foreign trade is a national element in domestic prosperity." Other nations have long assisted the development of their exports; to meet their effort we must link up American business and the American Government.

2. *Finance and foreign trade.*—Foreign trade re-

lations are not confined to selling merchandise, but embrace also the important relations of capital to enterprise in foreign lands. "Trade follows foreign investment." Capital systematically invested in foreign lands, goes out to a large extent in the form of machinery, supplies and other materials used in construction. Construction involves maintenance and renewal, which, in turn, call for further importation from the country that furnished the capital. In order to gain the really big prizes in foreign trade, we must be ready to make foreign loans. To do this our banks must have branches in foreign countries. These branches must build up a mass of credit information and must act as banking go-betweens for exporters and importers.

The Federal Reserve Act of 1913 recognized this need in allowing banks with a capital of \$1,000,000 or more to establish branches in foreign countries. The National City Bank of New York promptly established a number of branch banks in South America; and later, thru obtaining control of the International Banking Corporation, secured a number of branches in the Far East, and is also building branches in Russia. The American International Corporation with \$50,000,000 capital, closely related to the National City Bank and other great financial and shipping interests, was later established to serve as a medium thru which American investors could effectively place their funds in foreign securities and foreign enterprises.

3. *Foreign exchange and dollar credits.*—From another angle, also, the Federal Reserve Act has been of practical assistance in the development of foreign trade and finance. By reason of certain provisions of the Act, "dollar exchange" is now a fact, since (1) any member bank has the right to accept—to an amount equivalent to one-half its paid up and unimpaired capital stock and surplus—drafts or bills of exchange drawn upon it which have grown out of transactions involving the importation or exportation of goods, and which have not more than six months' sight to run; and (2) any Federal Reserve bank may discount acceptances based on the importation or exportation of goods, which have a maturity at time of discount of not more than three months' sight, and which are indorsed by one member bank.

Before this Act was passed the bank acceptance was almost unknown in this country in either domestic or foreign trade. But under this law firms in South America may draw on New York in exactly the same way as they formerly drew on London, and as a result "dollar exchange" takes its place by the side of sterling or London exchange. The Federal Reserve Act has made it possible for the American banker to act in concert with the manufacturer and exporter in extending our foreign trade.

4. *Development of mutual understanding.*—Foreign trade depends much more than is generally realized, upon good-will, understanding and social

intercourse. The American government has been actively engaged in developing these points of contact, especially in South America and China. In 1898, for example, the United States thru John Hay, one of the ablest secretaries of state this country ever produced, promulgated the doctrine of the "Open Door" in China, when that country was in imminent danger of partition by greedy foreign powers. Later, the feeling of good-will engendered by this policy was quickened by the return of part of the Boxer indemnity, an act which both secured good-will and insured friends for the future by making it possible for China to send hundreds of her students to American universities. China is anxious and willing to trade with the United States. Loans have lately been made to China, others will aid still more in both holding good-will and in placing the country in better condition to develop trade.

South America and the United States have also been drawing closer together in sympathy and understanding, and these feelings the American government has actively fostered. The Pan-American Financial Conference, held in Washington in May, 1915, will long be remembered for the mutual understanding that it engendered. One practical, definite accomplishment of this conference was an agreement between the Chamber of Commerce of Buenos Aires and the Chamber of Commerce of the United States concerning the arbitration of future commercial disputes between the business men of Argentina and of



this country. Another was the formation of the International High Commission of Uniformity of Legislation among the states of the American continents, which, if persistently followed up, may aid greatly in the development of commercial and financial relations between these two continents. A third step was the organization of small permanent commissions, composed mostly of business men, each of which devotes itself to securing information about and actively promoting good relations with some one country of South or Central America. Some of these commissioners have already exerted an excellent influence.

5. *State Department—diplomatic service.*—Few persons not familiar with government work realize to how great an extent our diplomats in foreign countries serve the interests of business men. Many of our largest contracts for war munitions, for railway building, for the working of mines are with foreign governments, and in very many countries, especially those whose natural resources are as yet undeveloped, securing of concessions must be thru the governments. In all such cases our ambassadors and ministers are at the service of business men to a far greater extent than even the consuls are. Governments must be approached, as a rule, thru their foreign office and thru our diplomats in the first instance. With the introductions once made, negotiations are likely to be direct, but even then our ministers are kept fully informed and copies of contracts

with foreign governments are usually filed with the legation or embassy. In China, Mexico until lately, Nicaragua, Venezuela, and during the great European war in Russia, England, France and practically all of the Allies, the chief business dealings have been with the governments; and our ministers and ambassadors have spent a considerable, even a major part of their energy in serving American business needs. Our Minister in Peking often held interviews late at night with American business men, high Chinese officials and members of the Cabinet while engaged in work of this kind.

On all these matters of importance, of course, the State Department is kept advised and the chiefs of the various Bureaus interested are frequently active participants in securing contracts or foreign loans.

6. *Consular service.*—The work of our three hundred and more consuls is to look after business affairs in foreign markets. Stationed in the commercial centers of the world in this service are men of different ranks, such as consul-general, consul, vice consul, deputy consul, and consular agents and clerks. As at times the consul must do work of a more or less diplomatic nature, he is placed under the supervision of the ambassador or minister to the country in which he is stationed and is responsible to the State Department. Where there is little business to be done, residents of the place, even foreigners, are appointed to represent us as consular agents performing some of the formal duties of the consular service but such

agents cannot be expected to do much to promote our business.

7. *The consul and his duties.*—Altho the consul has a certain amount of diplomatic work to do, his chief duty is the promotion of foreign trade. He must certify the invoices of goods that are exported from his district to the United States. These invoices are made out in triplicate; one copy is sent with the goods, another is kept by the consul and the third remains with the shipper. The consul should understand business. He is expected to know the value of goods so that if a shipper makes out a false invoice in order to avoid heavy customs duties here, the consul can either refuse his certificate or notify the customs authorities at the port of destination. The consul, too, should be on the lookout for any opportunities that would interest American business men. He prepares information for consular reports to be published by the Department of Commerce. Any one may write to the Department of State and get a report, sometimes a special one made for him, or any one may write direct to a consul.

Frequently special reports are made concerning very important questions. A number of years ago the Government conducted an inquiry thru its consular representatives abroad—practically over the world—with reference to foreign tariffs, and published the results in a series of volumes. At another time a general report was made on wages and conditions of living in different countries. Last year at

the request of the Alexander Hamilton Institute the Departments of State and of Commerce, thru the consuls and commercial attachés secured extremely valuable information from over one hundred foreign cities in regard to financing public improvements, such as paving, water supply and electric lights. If a business man is going abroad to do pioneer work in his field, the State Department will give him a circular letter addressed to the consuls in the ports of destination, asking them to render all possible assistance.

8. *Creation of the Bureau of Foreign and Domestic Commerce.*—The consul naturally cannot give all his time to work of this kind. Moreover, it often happens that he is not fitted to undertake investigations requiring technical training. The Bureau of Foreign and Domestic Commerce was therefore established in 1912 to supply what the consul could not give. To accomplish this the Bureau of Manufactures and the Bureau of Statistics of the Department of Commerce were combined, and the united Bureau was given additional functions. These steps put the resources of the government within reach of American business men engaged in foreign trade. To this new Bureau were delegated certain duties of the Bureau of Labor, such as for example the determination of the cost of production in leading foreign countries of articles dutiable in the United States. Investigators try to ascertain what are the items of costs, wages, hours, profits, comparative costs of living, and whether the business under consideration is controlled

by trusts or combinations. These data should be of much assistance in scientific tariff revision. From the Bureau of Manufactures this new department took over the task of fostering, promoting and developing the various manufacturing interests of the United States, domestic and foreign. From the Bureau of Statistics it received the duty of preparing and publishing information concerning the imports and exports of the United States by principal articles, the imports and exports of gold and silver, the merchandise exported to and imported from different countries, the amount of merchandise by customer districts and the nationality of the vessels engaged in this trade.

9. *Commercial attaché and his work.*—One of the most valuable innovations was the building up of a corps of commercial attachés and agents—business missionaries with headquarters at the embassy or legation in the capital of the various countries, who are sent abroad to prepare the way for the regular salesmen of the business houses. These trained men are carefully selected for their special business aptitude. They must know the principles and practices of the export trade; and to be able to meet on equal terms the commercial experts of the country in which they are located, they must thoroly understand the language of the country in which they work. Most of the leading foreign nations have had similar representatives for many years.

The United States has recently increased the num-

ber of these attachés so that all the most important capitals of the world are now covered: Berlin, Petrograd, Paris, Peking, Melbourne, Buenos Aires, Lima, Santiago (Chili) and Rio de Janeiro, while other points are to be covered as soon as the means are provided.

10. *Export trade greatly stimulated.*—Practical results have justified the use of these men. For instance, Mr. Arnold in China heard of the intention of the Chinese government to build two cotton mills. He communicated at once with American firms and persuaded some of them to make bids for the machinery contract. The Saco-Lowell mills, of Boston, sent a representative to China. With the assistance of Mr. Arnold and Special Agent Ralph Odell, who has made a special study of cotton markets all over the world, this agent secured a million dollar order for the complete equipment of these mills by American firms. The importance of capturing this initial order from the Chinese government in competition with well-known European firms cannot be over-estimated. If it is filled satisfactorily it means in all probability the placing of many more contracts.

11. *More practical results.*—The import trade in Bolivian tin furnishes another case. Practically all the tin we use is imported from two great mining regions, the Straits Settlements and Bolivia. The United States consumes more tin than any other nation in the world—about 45,000 tons a year, of which nearly 90 per cent comes from the Straits Settle-

ments representing the tin mines of the Federated Malay States. The tin arrives here not as ore, but as block tin. Realizing that little tin is smelted in this country, The American Smelting and Refining Company thought it would be good business to smelt Bolivian ore in the United States. But before they should attempt to secure contracts for any large amount of Bolivian ore, they determined to remove all doubt on two points; first, they wished to be sure that there would be no discrimination made against the United States in regard to export taxes; second, they wished to do away with some misconceptions existing in the minds of Bolivian miners regarding the intentions of the company. The matter was taken up with Washington, and the commercial attaché in Lima was put in touch with the situation. Within a year the matter was adjusted. A great tin-smelting plant has been erected at Perth Amboy; a new industry has been started in the United States; and this country is making millions of dollars which otherwise would go to foreign firms. Moreover, another link of connection with South America has been forged, and the relation between Bolivia and the United States will redound to the benefit of both nations.

12. *Work of the special agent.*—The work of the commercial attachés is supplemented by that of the “commercial agents.” These men investigate trade conditions at home and abroad along special lines; and are therefore men with the technical training

especially useful in research work. Commercial agents conducted an investigation of the hardware business that constitutes one of the most complete studies of the foreign market for American goods ever made. As a direct result a complete sample room for exporters of hardware has been established at the New York branch of the Bureau. The Department has also investigated the cotton market in China and India, the lumber and furniture markets, and the question of finance and credit in South America.

18. *Division of Consular Reports.*—From hundreds of sources, from every country, by mail and wire the Consular Bureau collects thru the commercial attachés and special agents information that is valuable in connection with American trade. Closely associated with the Bureau in this work is the Division of Consular Reports, which prepares the material and puts it in the hands of business men. First in importance is the daily publication called Commerce Reports. This contains information on industrial, commercial and financial matters of interest to American exporters, together with data concerning specific opportunities for American trade. Frequent supplements are published from time to time, each one dealing intensively with the business affairs of a different country. Often the Bureau receives from its agents plans and specifications for private or public enterprises in foreign countries. These are sent to interested persons and firms. The value of such in-



formation is evidenced by the contracts secured by American houses for the construction of a railroad and a capitol in Formosa, the installation of machinery in an arsenal in Han Yang, China, and of a new telephone system for a city in northern Europe.

There is also a series of monographs, practical and to the point. Any of them can be obtained at a nominal cost from the Superintendent of Documents at Washington. Some of the subjects treated in the series are: "Packing for Export," "Consular Regulations of Foreign Countries," "Factors in Foreign Trade," "Foreign Credits."

The Bureau is glad, also, at the suggestion of private citizens to undertake special investigations of general interest, such as the one mentioned on city financing. The Bureau often receives confidential information which it is not wise to distribute broadcast. Such information is given, however, to the persons or firms directly interested and frequently helps American business men abroad to avoid undesirable contracts as well as to secure good ones. The Bureau has published a trade directory of about 125,000 individuals and firms in foreign countries engaged in the import trade, classified by country and industry; a revised business directory of South America; trade directories of the West Indies and Central America; and a classified directory, including rates and circulation, of foreign publications that advertise American goods.

14. *Branch offices.*—In order to assist to the utmost the greatest possible number of business men in this country, the Bureau has established branch offices in New York, Boston, Chicago, St. Louis, Atlanta, New Orleans, San Francisco and Seattle. During 1915, more than 13,000 representatives of American firms called at the New York office alone. Every foreign delegation and commercial visitor is met by the officer of the department who speaks the language of the country from which the delegation or the visitor comes. The large and influential group of Chinese merchants that recently visited the United States was met at San Francisco by an agent who thoroly understands Chinese. He remained with them thruout their travels in this country, and was thus able to bring them into close touch with many of our leading business men. These offices also conduct special investigations and conferences; help foreign purchasers make valuable connections; provide suitable facilities for the display of samples, specifications and other materials; entertain foreign visitors; and arrange conferences between interested local experts and manufacturers, and attachés and agents who have just returned to this country. It has recently organized also a system of cooperating branches which undertake to supply all the information that it furnishes any of its branch offices to any local commercial organization which places in charge of its export department one full-time employe with suitable qualifications. Cooperating branches have been estab-

lished in Cincinnati, Cleveland, Detroit, Los Angeles and Philadelphia.

15. *Bureau has received cordial support of business organizations.*—This work has received the cordial cooperation of manufacturers and exporters. A special committee of the United States Chamber of Commerce has recommended that the service of the Bureau be greatly extended, both in this country and in its work abroad.

16. *Federal Trade Commission and foreign trade.*—The new Federal Trade Commission bids fair to play an important part in the development of foreign trade. Under the Sherman Anti-Trust Act every contract or combination and every conspiracy in restraint of trade or commerce with foreign nations is illegal, while any one who monopolizes, or attempts to monopolize, any part of the foreign trade is guilty of a misdemeanor. The strictly literal enforcement of this law would mean that American business, unorganized, would have to meet the strongly organized trade combinations of foreign competitors. Realizing this fact, American business men have felt that this legislation should be modified in such a way as to legalize a certain degree of combination for foreign trade.

The Commission is given by law the power "to investigate from time to time trade conditions in and with foreign countries where associations, combinations or practices of manufacturers, merchants or traders—or unfavorable conditions of any kind may

affect the foreign trade of the United States, and to report to Congress thereon, making such recommendations as it deems advisable." This power makes the Commission an ally of the consular service and of the Department of Commerce and gives it the right to suggest an amendment of the Sherman Anti-Trust Law that shall allow a greater degree of combination for export trade.

After full investigation the Commission feels that it would fail of its duty if it did not urge the pressing need of action being taken immediately. "If American business men are to make the most of the great opportunities now before them; if they are to build securely in foreign trade, and are to avoid disaster in the shock of the stern and determined competition that will doubtless follow the war, they must at once perfect the organization demanded by the conditions of international trade."

The kind of competition which the United States has to meet now, and that which it may expect to meet in the future is stated thus:

In Germany, prior to the war, there were six hundred important cartels—i. e., combinations to control the market—embracing practically every industry in the Empire. Many dominated the export trade of their industries and carried on vigorous campaigns to extend their foreign business, to prevent competition among German producers in foreign markets, and to secure profitable prices.

In Japan, an export organization of textile manufacturers is rapidly obtaining the rich cotton goods trade of North China. The trade in tea is controlled by a nation-wide

“tea-council.” One great Japanese firm, which in itself combines manufacturing, mining, shipping and merchandising enterprises, is rapidly extending Japanese trade in all lines thruout the Far East, and the Japanese government is directly assisting the development of shipping, banking and trading for foreign business.

British manufacturers have relied more fully upon an unusually effective merchandising organization for foreign trade, long established in foreign markets and giving British products a superior representation there, but in various important industries they have gone much further. Thus, most of the great coal export business is done by powerful organizations combining mine operators, marketing companies, shipping lines and foreign distributing companies. This gives British coal its grip on the rich South American market. British cement manufacturers are united in a strong and successful union for the extension of their overseas trade. Recently a number of large British manufacturers of machinery of all sorts have formed the Representation for British Manufacturers, Limited, an organization designed to handle all their business in certain important foreign markets and to carry on an aggressive campaign for its extension. Similar organizations for foreign trade are in process of formation among other British manufacturers. In the electrical, cotton-textile, pottery, tobacco, wall-paper, iron and steel, and various other industries, strong associations and combinations are important factors in foreign and domestic business.

It is against such organizations as these, uniting powerful groups of foreign concerns, backed by great banks, aided by railway and ship lines and vigorously assisted by foreign governments, that hundreds of comparatively small American manufacturers and producers must compete for trade beyond our shores. Some of the foreign trade combinations which enjoy overwhelming advantage in international trade have established branches and plants here which compete with

American manufacturers for the home trade. Moreover, in some industries our smaller manufacturers must compete abroad with great American companies having most efficient world-wide selling organizations.

17. *Triple combination battling for American exports.*—Export cooperation is essential, and the Commission does not believe that Congress ever intended to prevent extensive organization that would enable American firms to meet foreign competitors on equal terms. As a result of its recommendations, the Webb bill is now pending in Congress and will probably give the relief recommended.

The Federal Trade Commission, the Diplomatic and Consular Service and the Department of Commerce, are in the forefront of the fight to increase American exports in every legitimate manner.

#### REVIEW

Why is it important that all American consuls be citizens of this country on adequate salary?

Since consuls devote themselves very largely to foreign trade development, should they be accredited to the Department of Commerce rather than to the Department of State? What reasons can be advanced for keeping them under the jurisdiction of the State Department?

What are the leading government publications that throw light on foreign trade? How can they be secured?

Why are export combinations a necessity in the development of foreign trade?

Should the Sherman Anti-Trust Law be definitely amended to allow such combination?

Should a greatly increased number of commercial attachés be provided for? How do their duties differ from those of the consuls and special agents?

## CHAPTER VI

### PUBLIC INSPECTION OF BUSINESS

#### 1. *Controversy regarding government inspection.*

—Bitter controversy has raged at various times over the question whether the government, either Federal or state, should officially inspect, examine and certify to qualities of goods, to safety of business organizations, to qualifications of individuals. The subject is one of grave import, in business, in sanitation, in social organization.

2. *Need of standards in business.*—It will be readily conceded by all that in many lines of business standards must be set up which can be easily tested and recognized. These may be standards of size, or weight, or time; standards of quality as regards goods; standards of fitness in the case of men or women who have duties to perform which require skill and knowledge and where ignorance might well cause great private or public loss. Some of these needs have been long recognized in all the leading countries of the world. The question, nevertheless, frequently arises whether or not government inspection is better than private inspection as regards accuracy and public confidence as well as expense. A moment's thought upon the wide extent of the field

of inspection will also show that it covers business and activities of so divergent a character, ranging from purely physical matters to personal characteristics and the moral influence which certain activities may exert, that the whole question demands careful analysis and presumably the setting up of principles on which may be based different methods suitable to different cases.

3. *Weights and measures.*—Everything that is to be measured must have the measurement expressed in terms of some unit or standard. The standard of length in Great Britain and the United States is the yard, which, in Great Britain is the distance at 62° F., between two plugs of gold sunk in a bar of platinum, preserved in London. In the United States the yard, in accordance with our law, is taken from the prototype meter in the National Bureau of Standards at Washington and is derived from it in the ratio of  $\frac{3600}{3937}$ . The international standard of length is the meter, from which the United States standard is taken. That standard is preserved in Paris. It was established by the French Republic in 1801. The unit was intended to be one ten-millionth part of the distance from the pole to the equator. Remeasurements proved that the meter had been made slightly too short, so that now it is defined as the length of a certain bar of iridio-platinum (ten per cent iridium). The original meter in this form is preserved in the Bureau des Archives at Paris. Certified copies of the same form and material are owned by all civilized



nations, that of the United States being preserved at the Bureau of Standards, Washington. Since it has been proved that this meter is not exactly the one ten-millionth part of one-quarter the circumference of the earth, as had been intended, it is no better than the yard or any other standard that might be taken. Inasmuch, however, as its multiples and sub-multiples have been fixed on the decimal system, it has been made the general international standard. Furthermore, when the French government established the meter as the standard, it standardized also by nature tests—interrelating them—the measures of area, of weight and of volume. For example, the gram (unit of weight) is the weight of one cubic centimeter of water; the liter (unit of volume) is the volume occupied by a mass of one kilogram of water (measured in both cases at the point of its maximum density at 4° C.).

From these illustrations it will be seen what great care and trouble have been taken by all leading nations to determine these standards by which we buy and sell goods of various kinds. To prevent cheating on the part of merchants by the use of short measures or inaccurate weight scales, there are appointed government inspectors of weights and measures with authority to make comparison with the standard at any time at their will of the weights and measures used by any business man. If a dealer uses inaccurate measures he may be severely punished.

In like manner governments set up certain stand-

ards of value. For example, in the United States, the dollar is 1.672 grams of gold .900 fine. In a similar way in Great Britain the £ Sterling is 7.988 grams of gold .916 $\frac{2}{3}$  fine. In Germany the mark is .398 grams of gold .900 fine. In France the franc is .3226 grams of gold .900 fine. At times, however, in places where the government has not by authority defined standards, private individuals or companies have done so. On account of the universality of their use, people very generally do not realize what infinite pains have been taken by governments to establish and maintain these standards unvarying, in order that business may be safely done. Without such standards the business world would be chaos.

4. *Salt, lumber, grain and sugar.*—Many very common articles of consumption must be bought and sold according to standards of quality, when from the nature of the merchandise the quality is not readily discernible by an untrained purchaser.

(a) Salt is sometimes mined, being taken from the earth in the form in which it enters into commerce. In this country it is usually found in solution with water (brine), and the salt is secured by evaporation of the water. In a similar way, a very large proportion of the salt manufactured and used in China is secured by the evaporation of sea water.

In all of these cases it is practically impossible for the ordinary purchaser to determine the quality of the salt, excepting in the most general way. The

governments of various states have therefore appointed inspectors whose business it is to test the salt and certify as to its quality before it is put into the market for sale and purchase.

(b) Lumber is prepared for the market by sawing into boards and planks and beams of various sizes and shapes to meet the needs of purchasers. Of greater importance still, however, is the quality of the wood as regards the species of the tree from which it is derived, its soundness, freedom from knots, and from rot. In earlier days, men familiar with the qualities of lumber or timber fitted for various purposes inspected the lumber as it came from the mills and was shipped to the great lumber yards for distribution to the users. These men, by practice and association one with the other, acquired a rare degree of skill, so that the inspection of different men at different places showed on the whole sufficient uniformity to enable them to do business. In certain places, however, an attempt has now been made to determine standards by government and government inspection assists the dealers.

(c) Wheat, oats and corn are not sold by the measured bushel only. The bushel itself is usually of late years determined by the weight of the grain rather than by the bulk, inasmuch as the varying qualities for a standard bushel in bulk differ greatly in weight, and the quality of the kernels themselves vary. Moreover, the wheat or oats may have mixed with them various quantities of seeds from weeds or other sub-

stances because the grain has not been carefully cleaned. Custom among the grain dealers had early fixed many quality standards, but now many of our states have set up local standards and have provided government inspectors. This practice of classification and grading grain is distinctly American in origin. The Board of Trade of Chicago began it in 1858. State inspection was begun by Illinois in 1871, followed later by Missouri, Minnesota, Indiana, Kansas. Now most of the states and markets east of the Rockies have a substantially uniform practice. An Englishman of prominence in the grain trade has said that of all the inventions of human ingenuity in the grain business the American system of grading is the greatest.

(d) Sugar bought in large quantities by the great refineries has also been standardized, the standards varying somewhat in the different countries but they are so well known that there is little difficulty in making comparisons. For example, in the United States standard raw sugar is 96° centrifugal, polarization test, and with this as a basis, the various grades of raw sugar are worked out. The refined sugar is represented by the granulated sugar. These and foreign standards are substantially uniform and can be readily applied by all the large manufacturers and dealers. Inasmuch as the sugar trade is to a considerable extent in the hands of a relatively few large producers, their gradings are accepted by the mass of dealers. It can readily be seen how absolutely

essential such a standardization is in these and many other lines of industry.

5. *Inspection of meats as a commercial and sanitary measure.*—To provide clean, wholesome and healthful meats for all is one of the problems of civilization. Altho in the past when farmers provided their own meats and when local butchers supplied villages and cities it was possible for individuals to have some supervision of their supply, that is no longer possible in our large towns and cities. There must be some careful inspection and this inspection in part has been taken over by the Federal government. The states have not yet undertaken the inspection of meats on a wide scale, altho in many states as New York, great care is taken to protect herds from tuberculosis, foot and mouth disease, and other diseases affecting meat producing animals.

In spite of many sharp criticisms of the Federal inspection service, fraud and carelessness having been charged from time to time by magazine writers, much has been accomplished. Inspectors see the animals when alive, are present when they are slaughtered and inspect them afterwards. The Federal authorities, however, inspect only about one-half of the supply. Probably two per cent of the supply is diseased and should be condemned. Naturally, the diseased cattle are likely to be shipped to places where there is no inspection. The Federal inspection service covers the packing establishments of which the products go into interstate commerce, some eight hundred in all.

Inasmuch as these great packing houses are mostly in the West and the cattle are those taken from the ranges, the probability is that the cattle slaughtered in these establishments are those less subject to disease, and the dairy cattle in the East are more likely to be infected with tuberculosis.

6. *Inspection for the export trade.*—A prominent influence in establishing and maintaining our meat inspection law was the action taken by some foreign governments, especially Germany, against the importation of American meats, the alleged ground being that the meat was diseased. There was at the time more or less trichinae in American hogs. Numerous cases were found in the American population as well as some in Germany, and it is probable that some of the cases were those of people who had eaten American pork, the custom of eating uncooked ham being common in Germany. Aside from the fact that there was some ground for believing that American meats were unsanitary, was the consideration that German farmers, especially the great land owners, were feeling the competition of American imported meats, so that the exclusion of American pork was based largely on commercial grounds. The prompt action of our Federal government in creating an inspection bureau that could be well enough organized to control absolutely all exported meats gave our government the opportunity to bring pressure to bear upon Germany to revise its laws and to permit the importation of American meats.

The study of the problem by scientific experts has made it possible to prevent complete loss, even when animals are afflicted with certain diseases. Some diseases being purely local in their nature, the greater part of the meat is not tainted by them. Other diseases rendering meats unfit for food, nevertheless do not destroy their utility for certain manufacturing processes. All these facts, however, merely emphasize the need of skill in inspection, such inspection to be universal, and rigidly enforced.

7. *Pure food laws.*—There are two chief means of adulterating food: first by cheating, as for example by adding starch to sausages, paraffin to candy, water to milk, etc.; second, by adding to foods dangerous ingredients. In the United States no effective food laws were passed until 1883 when the state of Massachusetts passed an act containing what have since become the fundamental principles of the food and drug acts of the various states and of the Federal Drug Act.

In 1905–06 public sentiment was greatly aroused by exposure of food frauds resulting in the passage by Congress of the Food and Drugs Act, which was approved June 30, 1906. From the standpoint of public health as well as public honesty, the Act is one of the greatest importance.

This act is intended primarily to prevent the adulteration of food and drugs. Drugs must not vary from the standard recognized in the national formulary unless the degree of the strength, quality and

purity is stated on the container in which it is offered for sale. Food is adulterated if any substance has been mixed with it so as to reduce its quality or strength or has been substituted wholly or in part for the article itself. It is also adulterated if any valuable constituent has been abstracted or if it has been so treated as to conceal any damage or inferiority, or if any injurious ingredient has been added; or if it consists in any degree of filthy or decomposed animal or vegetable substances or any portion of an animal diseased or that has died otherwise than by slaughter. Preservatives may be applied externally to food products if directions for their removal are printed on the package. Articles may not be misbranded by placing any design, device or statement on the package or label which shall be misleading in any particular, and misbranding is to be prosecuted the same as adulterating. The dealer is not held liable if he can show a guarantee from the seller residing in the United States that the goods are not adulterated or misbranded.

The Bureau of Chemistry, Department of Agriculture, is the tribunal to decide whether any specified food substance is deleterious.

The enforcement of the law has doubtless been very helpful in restricting greatly the use of many patent medicines, injurious in their character. On the other hand, by compelling manufacturers to label their goods so as to disclose clearly their contents, it has enabled consumers to buy with full knowledge of their



purchases and is tending to benefit honest manufacturers of wholesome products. In this way it has been promotive of trade of the better sort. Again, by its rigid enforcement it has been protective of the honest manufacturer and dealer, and has freed him largely from the pressure earlier brought upon him by his competitors to deceive his customers. It is thus promotive of wholesome honesty.

It would, of course, be very desirable if we could have one uniform system of pure food laws that should be enforced thruout the country instead of a burden of laws varying from state to state..

Of course, there is an added burdén of cost in pure foods. Cleanliness costs, but for that the consumer is glad to pay. Moreover, when one reads accounts of the deceptions that have been practiced in the production of many common articles of food, such as canned fruits and vegetables, one sees the advantage of rigid laws rigidly enforced. In certain reports printed in the *Scientific American* we learn that cannery waste such as skins, cores, decayed parts of tomatoes, partly spoiled fruits and similarly spoiled material can be worked up into catsups and soups by dosing them with chemicals, spicing, coloring and flavoring them and otherwise preventing them from fermenting, and making them palatable. Against such abuses the public ought to be protected and should be glad to pay the cost of protection.

Perhaps no other single question in connection with the food supply has caused more discussion than that

of securing a fairly safe milk supply at a cost not prohibitive. The problem has not yet been solved, but any energetic and efficient board of health can accomplish much. Herds of cattle can be inspected, the milk itself can be regularly tested and measures can be taken to prevent the consumption of any milk containing injurious germs. Probably the Health Department of New York has done more to insure a safe milk supply than the boards of any other city in the world. Its work should serve as an example for others.

8. *Banks and insurance companies.*—Entirely different in nature is the inspection of various types of business establishments to see that they carry out provisions of the law made for their regulation. In volumes XVI and XVIII will be found the main provisions of the laws regulating the issue of bank notes, the holding of necessary reserves, the checks upon investment of savings banks and life insurance companies. Both the Federal government and most state governments have provided for the inspection of such institutions in order to see that their patrons are duly protected. It is impossible, of course, for the average depositor in a bank to guard his own interests. He is not able to investigate, nor has he the technical knowledge and skill required.

9. *Protection of the public by examination and certification of certain professions.*—Among peoples in earlier stages of advancement, individuals have usually been free to make their own reputations and

to use any means that they thought wise to get themselves before the public. Medicine men, soothsayers, fakirs, holy men, by various devices have attracted and secured the confidence of others. They have used or abused this confidence. They have benefited or wronged those who trusted them. They have prospered or suffered and have caused their customers to prosper and suffer without interference by the proper government authorities. At times heads of the state or tribe have been their chief patrons; and sometimes in case of discovery of gross malpractice these same patrons have inflicted swift vengeance. Even in our own country until a late day there has been but scant regulation of physicians, lawyers, teachers. Each could practice if he could find patrons.

At the present time, however, all civilized states attempt to protect the public against fraudulent practices. Most states, largely at public expense, provide for the training of doctors, lawyers and teachers. Physicians are not permitted to practise and to earn their living thereby until they have been duly examined by properly constituted governmental authorities and have been certified as duly qualified both by learning and by character to practise their profession. Similar examinations must be taken before lawyers can offer themselves for pay as formal legal advisers to the public. Teachers also must pass examinations as determined by law and be duly certified before they may be engaged by the public authorities to teach. In most of our states private schools are sub-

ject to inspection by the educational authorities; and, if the results of such inspection show that the school has not attained certain standards of excellence, its methods and teachers must be changed or the children attending will not have fulfilled the legal regulations regarding school attendance.

10. *Certification of other servants of the public.*—In order to protect the public this work of examination and certification has been widely extended in many directions. Persons are not permitted to run steam-engines, nor to act as pilots in our harbors without licenses given as a result of examinations. In most states chauffeurs are required to submit to tests and receive a license to run a motor car. In certain states barbers are not permitted to practise their profession until after due examination and license. The tendency seems to be to extend the laws to practically all kinds of occupations where malpractice or mistakes may result in injury to health of individual patrons who are themselves for any reason unable to make proper investigation as to the qualifications of those whom they employ.

Altho protection to the public is the reason usually assigned for such laws, the promoters are often men in the trade or profession who wish to lessen competition by excluding all those who cannot pass such examinations. The commercial spirit doubtless in many instances works under the guise of the promotion of public safety.

11. *Quasi-official privileges.*—Certain classes in the

community by virtue of the fact that they have certain certificates granted them either by the government or by boards recognized by the government are given privileges that are semi-official in their nature. Men who have been licensed to preach by the constituted authorities of their church, whatever its denomination, are thus recognized by the state. Marriage in the United States under our laws is a civil act, whatever its religious character may be in the minds of individual citizens. Because the marriage ceremony has very generally been considered a religious act, it has seemed wise to the state to give the power of uniting a man and woman in marriage to certain government authorities, such as justices of the peace, aldermen or mayors of cities, steamship captains on the high seas and consuls abroad, as well as to ministers of the gospel. These men are required to make returns to the proper public offices for record after performing marriage ceremonies. Their act of performing the ceremony is recognized in the United States as sufficient to make the marriage valid. In many countries, for instance Germany and France, the minister is not given such power. The legal ceremony must be performed by a government official. The religious ceremony, in the case of people of the well-to-do classes, is purely a ceremony for the satisfaction of the parties concerned and has no legal validity.

Such grants of power are, of course, beneficial in many ways, primarily, however, in that they afford

personal satisfaction to large numbers of people in the community and serve also to encourage the maintenance of religious feeling. It is a good thing to have the sanction of the church. On the other hand, however, persons whose main business is not to perform such formal legal duties are often very remiss in carrying out their work. It is very desirable that proper records be kept in public offices of births, deaths and marriages. Physicians whose duty it is to register births and deaths and ministers who should record marriages are often careless in making returns, and in this way public interests suffer. Generally speaking, business is better performed by a man who devotes his time to it instead of by one to whom it comes as a mere incident.

12. *Limitations of inspection.*—As has already been intimated, government inspection of late years has been greatly extended and seems likely to enter many fields that have hitherto been considered strictly private. Sanitary inspectors enter our houses to look over the plumbing; our children are submitted to examination of eyes, teeth and skin in school; our births, marriages and deaths are recorded and certified to by public authorities. Where shall the limit be? It seems clear, in the first place for business reasons, that in order not to hamper individual initiative, but rather to stimulate invention and creative thought, government supervision and inspection should be limited as much as can be done without detriment to the public welfare. On the other hand, the interests of indi-

viduals are so intertwined in business; and, especially in the great cities, the acts of each individual are so likely to affect the welfare of his neighbors without any possibility of their defending themselves against infection and other forms of injury, that public welfare demands inspection wherever carelessness or the vicious intent of individuals may seriously injure others.

Not only business and health demand careful consideration whenever the question of public inspection is raised, but social and ethical reasons require care no less. The privacy of the individual is a right that should be protected as far as possible. The intimacy of the home ought not to be unnecessarily invaded. An individual cannot grow morally any more than he can grow physically if he is continually hampered and if he is not allowed the free exercise of judgment and decision—and yet he must not be permitted to injure his fellow men. The rule for a limitation of government inspection must insure public welfare while attaining at the same time the best development of individual citizens.

## REVIEW

Explain the need of standards in buying and selling; also the business need of the standard of time.

How are the records of the standards of length, weight and volume determined and preserved?

What is a dollar?

Is it essential that standards be maintained by governments or may individuals or associations of business men fix and maintain them?

**124 BUSINESS AND THE GOVERNMENT**

In what way does the inspection of meats affect the export trade of the United States?

What are the essential provisions of the United States Food and Drugs Act?

Why do the provisions of pure food laws increase the cost of foods?

Ought Christian Scientists to be permitted to treat sick people? Why?

Ought teamsters, accountants, salesmen, grocers and street cleaners to be compelled to take out a government license before doing their work?

Ought clergymen to be permitted to marry people until they have secured a marriage license from duly constituted authorities?

What limitations would you place upon governmental inspection of business?



## CHAPTER VII

### LABOR LAWS: SAFETY AND SANITATION

1. *Nature and importance of contracts.*—The advantage for people in living together in societies, as they do, rather than each apart by himself, comes thru their doing things for one another, thru their serving one another and exchanging their possessions and not each doing all things for himself. It is a commonplace of thoughtful observation, as well as a great principle of social science, that the more people do for one another, the more they can progress. But when people agree to do things for one another they make contracts: each becomes entitled to receive something, and each becomes bound to do or to give something in return. A wise man, Sir Henry Maine, has said that the profound difference between societies in early times and at present is that then they were based upon status, whereas now they are based upon contract. That is, formerly people were born into their positions, occupations, duties and rights, while now they choose them. Then custom decided what they were to do for one another: now contracts decide.

2. *Importance of labor contracts.*—Contracts in uncounted numbers are made every day, contracts of

purchase and sale, contracts of lease, contracts of marriage, and among all the rest contracts of labor. And these last are not the least important for the life and health of society. The values directly involved in American labor contracts cannot amount to less than \$10,000,000,000 yearly. Yet even these vast figures indicate but imperfectly the extent to which all classes and all interests are affected. Labor contracts are truly of vital importance to all. It is not too much to say that upon the wisdom, fairness and fidelity with which they are framed and carried out depends the continuance of civilized social life.

Labor contracts, of great importance to all classes, are of greatest importance to the laborers themselves and to those dependent upon them. Their lives are affected by other influences, in their own characters, in the physical and social atmospheres in which they live, in their opportunities for education and enjoyment, in the character of the government under which they live, and in many another economic, social and political circumstance. But the labor contract has a wider reach of influence than is always realized. Directly it determines wages, tasks and hours; indirectly it determines a great deal more, all of the varied conditions under which the labor is to be performed, the physical environment, the responsibilities, liabilities, right and all the rest. Only a few of the terms of the labor contract are stipulated between employer and employe; other parts are read into it by natural conditions and by the law of the land.

3. *Necessity of public regulation.*—Owing to the variations in public opinion and to the fact that not all men are of the best intentions, the regulation and enforcement of contracts have come to be one of the most important functions of government.

The policy of foreign lands regarding regulation is generally broader than that of the United States, all measures that promote the general welfare being within its scope without constitutional limitations.

4. *Constitutional limitations in the United States.*—In the United States, however, our earlier constitutions were framed at a time when there was great jealousy for personal liberty and rights, so that many constitutional guarantees have been provided against encroachments by the government or by other individuals. The American courts likewise have shown an inclination to interpret this constitutional limitation rigidly, so that many attempts to promote the welfare of laborers in ways that seem to limit the right of individual contract have been declared unconstitutional.

The courts, however, have upheld the right to assume control over service of many kinds thru the power granted to Congress to regulate interstate commerce. It has even gone so far as to uphold a law excluding children from a great part of industrial employment by prohibiting the carriage of their products in interstate commerce.

Of late years also, under the so-called police power of the states and of the Federal government, the

Legislatures and Congress with the approval of the courts have been able to place many kinds of industries under rigid control for the welfare of the people, even when such control limited strictly the liberty of contract. By the government, buildings are destroyed to check fires, diseased animals are killed, persons liable to spread contagion are confined closely under quarantine, even for long periods of time, weeks or months.

5. *American labor policy.*—America has only of late years been foremost in the industrial world. Even yet we cannot be said to have any definite or uniform labor policy. There can be no doubt, however, that there has been for the last few years a definite trend toward limiting more and more the freedom of contract with laborers in behalf of public welfare. The most important limitations apply to the work of women and children, which will be discussed in a later chapter. The Federal government forbids the importation of aliens under contract. Some states forbid the employment of aliens by the government. To provide for public safety there are laws forbidding in certain callings the employment of the intemperate or the color-blind. Wages are protected against attachment. Often they must be paid in lawful money, and the frequency, time, manner and even place of payment are regulated. In all these and other ways it is seen that the government modifies materially the labor contract, tho in general there has been the assumption that individual liberty, at any

rate of adult males, is an important element of welfare.

6. *Experience as a guide.*—For the development of a labor policy it is desirable that not too much haste be made in legislation until the experience of other states and countries can more surely point the way. In interpreting such experience care must be taken to note how different conditions affect the application of laws. With due care given to such interpretation, it is probably promotive of public well-being to extend somewhat further than at present the range of government interference in the labor contract. Regulations, even close restrictions, may enlarge real liberty. Liberty is not mere freedom from control by governments and laws. It is freedom from control of all kinds; by government, by other individuals, by natural forces, by any restraining influences. Freedom, as government should promote it nowadays, is rational freedom for all; and regulation may enlarge liberty by giving to some more than it takes from others. Traffic regulations and the restraining hand of the traffic officer increase the freedom of movement thru city streets. Like restraints increase the freedom of exit from burning theaters or factories.

7. *Results of regulation.*—Public regulation of the labor contract has not been in every respect a blessing; but, as a whole and in its broad results, its benefits are not to be doubted. At the very times when nations have developed most their regulations they have

usually shown greatest economic advancement and prosperity, the evils have seemed at times to develop alongside. So it was in England, in Germany and in the United States. Within our own country the states which regulated first and most, as Massachusetts and New York, have not suffered generally in competition with other states.

Particular measures, such as workmen's compensation, dreaded by some as carriers of ruin to industry, seem now to have helped rather than injured business. It is not good business to waste human capital. It is good business to take the best possible care of those who work.

8. *Regulations not perfect.*—Much remains to be done in the better formulation and administration of regulations. Especially is this true in the United States. Laws here must be made more uniform, either by concerted action among the states or by the transfer of power to the national government. Stronger and wiser administration must be effected. Not ephemeral legislatures but industrial commissions with more of permanency in their make-up must fix details of policy. Many other changes there must be.

9. *More regulation especially regarding safety and sanitation.*—The tendency of this democratic age is toward more and more of regulation. Wise men, employers and business men with the rest, will place the emphasis upon united action for wiser regulation. The chief interest of all thoughtful men should of

course be to keep themselves in condition to render the greatest service. It is therefore to be expected that the first regulations, the most stringent regulations, and those most certainly upheld by public sentiment and by the courts are those that have to do with safety and sanitation.

10. *New perils in modern industry.*—Quite beyond doubt is it that the world is better off now than ever it was in the past. Quite as certain is it also that the gains in modern life are due in great part to changes in industrial methods, which were massed most wonderfully in the latter half of the Eighteenth Century and the first years of the Nineteenth and which accomplished then what is called commonly the Industrial Revolution. Since then the production of all good things has been much more rich and varied. The material needs of men are met much more generously; and there are greater resources and greater opportunities for the development and gratification of higher needs, the intellectual, the æsthetic, the spiritual.

And yet the Industrial Revolution was not an un-mixed blessing. Modern industry is not in every respect happier than that which preceded it. There are new difficulties, troubles and dangers for all classes. And not the least serious of these are the new perils to life, to limb and to health which modern industrial workers have to face.

It is not likely that life, limb and health, on the whole, were safer in olden times. Then, neither work-

ing people nor other classes knew much of individual or social hygiene; nor was there much medical and surgical knowledge and skill. Consequently, diseases still to be dreaded and devastating plagues now unknown took frightful toll in human life. It is proved that people live longer now. Undoubtedly the public health is better. And, if all this is true of the people as a whole, it must be true also of the working classes, for these make up much the greater part of the total population. But our gains in length of life and in soundness of health have been secured chiefly by improved sanitation and by advances in medical and surgical skill.

In former times wage-earners had no abundant supplies of wholesome water, no serums for the cure of diphtheria or lockjaw, no antiseptics in disease and surgery, no public hospitals. But they lived more simply than now, more scattered thruout the country, more in the open and more in Nature's way; they had a pleasant and healthful alternation of occupations or of particular tasks; they worked more slowly; and they were not so much exposed to harmful substances and to dangerous instruments in their places of work. Seldom did they work in poisonous fumes, or in the dust of emery or steel. They never were caught and crushed on revolving shafts or shocked to death by electricity. They never were bruised or killed by railway trains. And yet in proportion to their number possibly as many died from



typhoid, were killed by falling trees and vicious animals or will beasts as now lose their lives.

11. *Dangers in present industrial methods.*—The perils just mentioned are but a small part of the dangers in the environment of the typical industry of the present. The modern workers are massed in densely populated communities. They are massed again in crowded work-places. Machinery is thick about them, and it moves with amazing speed or with resistless force. Light, sometimes even air and space are inadequate. Materials and instruments of work fill the atmosphere with minute and deadly particles, fibers from textiles, dust from stone and metal, fumes from acids, microbes from skins and hair. Heat may be lacking; more often it is excessive. Humidity, even pressure of the atmosphere must be adapted to the needs of production. Deep in the earth or water and far above its surface work must go on.

12. *Accidents in industry.*—A part, and only a part, of the perils of modern industry can be measured by the figures of accidents suffered in the course of employment. Accident statistics for most portions of this country are not yet to be had with any fulness; they are accumulating slowly thru the administration of the workmen's compensation laws. But enough is known already to show that the killing and maiming of American employes is very great. The most careful and skilful late estimate shows not less than twenty-five thousand killed each year at their

tasks and 700,000 seriously injured. The number of those less seriously injured runs into the millions. Mining, railroading and construction kill their thousands each year. So does agriculture also, with its very great numbers employed.

There can be no need here to enlarge upon the significance of such facts. There is frightful loss in the annual destruction of tens of thousands of productive human machines and the temporary or permanent disablement of millions more. And the pain, the grief, of the sufferers and their families, which may be put aside for the moment, ultimately must come back into the reckoning, even of material losses. The blighting of families and lives makes for a lower quality in the man and the citizen, and in the producer. All this is true; so true, that it can hardly be exaggerated. The mistake often made is the assumption that it is worse than what preceded. This is recorded, that was not. These numbers are larger. Is the total percentage of loss greater?

13. *Burden of sickness among employes.*—If one might make a fair computation of the direct money loss to the country because of industrial accidents, he would find his total in the hundreds of millions of dollars a year. But the losses thru sickness among workers and their families are the greater. A recent and carefully prepared estimate of the yearly cost of sickness among those gainfully occupied stands at no less than \$750,000,000. Not all of this is from the sickness of employes. Still less of it can be charged

against employment. But some part is due to employment and its circumstances. There are indubitably unhealthful circumstances of many employments; and to these the employes are exposed during half or more of their waking hours in the periods of their employment.

14. *Employes not responsible for accident or sickness.*—To the extent to which this arises from his employment, the employe is not wholly responsible. Obviously, it is the employer who is primarily responsible for the conditions of his work-places. He selected and developed the work-place; he determined how it should be made and equipped and how it should be managed. By the entirely harmonious evidence of all reliable reports it appears that very many, possibly most industrial injuries are due to the so-called natural or inherent risks of the industries.

There is no question to be raised here and now as to blame for the employer. And certainly it cannot be said that employes are always perfectly careful against accidents or disease. In fact, the indifference to danger shown by experienced workers—by these often, tho not always, rather more than by beginners—is proverbial. Nor is it of consequence here to discuss whether or not varying rates of pay proportionately compensate employes for different degrees of hazard in their work. The solid facts remain secure. Partly from carelessness of known risks, partly from sheer ignorance of the risks, and partly from the need to make a living, workers do face

dangers. Consequently, they are injured and they fall sick. That is the evil. And yet again let us note that a tone of unjust blame often blends with the recital of these facts. Let us not forget that these same people—and the rich employers as well—often take risks, sometimes equal or greater risks, in their pleasures—canoeing, football, hunting, skating and automobiling.

15. *Employers did not provide safety.*—There are adequate explanations of the employers' failure to protect adequately the lives, limbs and health of their employes. They believed, as did many others, that workers were free and should be left free to look out for their own safety. They did not know how to safeguard their work-places. They often did not realize the dangers. It would not have been natural or human if all these things had been realized at first. Such developments are a matter of time and expense.

The severity of modern competition made it very difficult, in a sense one may say impossible, for individual employers to make and keep their work-places safe. To instal safety devices meant outlay and possibly at times a real, even a very serious curtailment of profits. Accordingly, the competitor who was least concerned about the safety of his hands was often the strongest contender in the market. It was at bottom for him a question of money. Thus, workers and the kindly, just employer had to suffer.

16. *Government assumes duty of protection.*—When the impairment of the public welfare, with the increasing number of workers and their increasing consciousness of power, became too great to be disregarded longer, government began to make provisions for safer and better places of employment. There was at first no conscious adoption of a new policy. Little by little, as a recognition of definite evils might compel, specific requirements were imposed in one industry after another. Naturally, England, the earliest seat of the new industry, first experienced its dangers as well as its advantages. And it was fortunate for the world that the first and greatest model of governmental interference for the protection of employes was worked out—one cannot say devised—with characteristic British common sense, with the cooperation of the best employers.

It is customary to say that the British factory acts began with the Health and Morals Act of 1802, which required the whitewashing of the rooms occupied by apprentices in textile mills, and certain other modest provisions for the health and decency of those young workers. Thereafter, step by step and always to meet a known evil, the British factory acts were developed into a broad system of regulations for the safety of all classes of workers in all kinds of industry.

Other countries have followed the course of England. And sooner or later every individual nation has felt constrained to adopt a policy of govern-

mental provision for the health and safety of employes.

The United States was not prompt to adopt the new policy. But the change came for us in the years immediately following the Civil War; and our rapid advance to the front rank of industrial nations has had as one of its consequences the development here of a system of safety laws not unlike, tho often not quite so radical as those of foreign lands.

Nearly every class of our laws in this field was opposed and attacked as an unconstitutional violation of the guaranteed liberty of the employer or the employe. But to a greater degree than most labor laws the laws for health have survived hostile criticism. The great body of them are of undoubted validity. At the present time the employers, voluntarily in many cases, are going far beyond the requirements of the laws.

17. *Industries covered.*—The conditions which have been taken as justifying an interference of government for the protection of employes naturally call for more interference in some industries than in others.

Mining, in particular, has been subjected to the most minute regulations. Partly, perhaps, the reason is because the perils of working under ground are well known and vividly realized; partly, doubtless, it is because the processes of mining are rather more simple and less varied than the processes of manufacturing and thus yield themselves better to prescrip-

tion. But, for whatever reasons, the processes of mining often have been regulated minutely.

The comparative neglect of agriculture is notable. It rests upon the assumption that the need for protection depends not upon the numbers of the employes who may be in danger but upon the degree to which they may be grouped within an occupation. Yet more are killed each year in farming than in mining.

18. *All classes of employes included.*—It was the early practice of the British government to assume that the adult male employe was pretty well able to look out for himself. This principle, gradually abandoned in the land of its development, still has a considerable measure of acceptance in this country, where there are many more laws for the benefit of female and youthful workers than for men. But safety measures, both voluntary and compulsory by law, for the protection of the adult male are now adopted in this country, as in others, with the utmost freedom.

19. *Prohibition not common.*—Despite the grave dangers attending many of the operations of modern industry, there is little of out-and-out prohibition in other countries and less in this. The elimination of poisonous white phosphorus from the match factories is a recent achievement of the American Congress; and this and other deadly materials are prohibited in foreign lands.

For the most part, exclusions from certain types of

industrial labor apply to women and children, and to positions in which these might suffer bodily or moral injury, as in mines, bar rooms and a number of other places, as well as in night work. For the protection of both themselves and their fellow employes, sometimes of the public as well, children and women are often excluded from the cleaning of moving machinery or the running of elevators; intemperate or inexperienced men from railway train service; inexperienced or unlicensed men from positions as mine foremen.

20. *Regulation rather than prohibition—its general character.*—Rather than to prohibit dangerous employments government nearly everywhere and nearly always prefers to regulate them in such way as to eliminate or minimize their dangers and retain the benefits of their products and services. And of regulation there is no end. Evasions everywhere, and in this country constitutional objections time after time have necessitated revisions and new phrasings, until the mass of safety laws, ordinances and rules in the great industrial states has passed beyond the understanding of most minds.

21. *Accidents most regarded.*—Altho the earliest of the British factory acts, the Health and Morals Act of 1802, was for better sanitation rather than for the prevention of accidents, it is safety from accident rather than from disease that has been more in the minds of those who have shaped the policies of states, at least until within a short time.



It would profit nothing here to attempt to show the full range of present measures for the prevention of industrial accidents. This can be seen in full detail in compilations of the United States Bureau of Labor and in manuals which have drawn upon them. One may rest upon the statement that in the most advanced communities every part, step and phase of the construction, equipment and use of factories is covered, and that other work-places, mines, yards, railways and the rest are less closely attended to only as their nature requires or permits less attention. Competent foremen and fellow workmen must be engaged, with especial regard to the qualifications of those in positions of critical importance. Even the numbers to be employed are fixed in the "full crew" laws.

22. *Occupational diseases.*—Those diseases known as occupational, which are due to the materials or methods of particular employments, recently have had much attention from government, as their sad consequences have become better known. Against some, as "phossy jaw" and lead poisoning, provision may be made by the prohibition of the use of phosphorus and lead; altho as yet only the former material has been banished in the United States. The exclusion of susceptible persons from working with lead has been the method followed in that case. For those who work in compressed air a beginning has been made, in New York and New Jersey, with very definite requirements of a gradual passage to and from

the abnormal atmosphere and of limited work-periods in it. In the United States there are as yet no specific safeguards against the greater number of known occupational diseases.

23. *General diseases.*—A moment's thought will make it clear that no broad line can be drawn between occupational diseases, or industrial diseases as they are often called, and others.

From the very beginning of safety laws, not only in England but everywhere, no small part of the regulations imposed have been designed to preserve the general strength and health of employes. To this end there are many provisions for ventilation, sanitation, for toilet conveniences, for seats for operatives whose tasks permit sitting, against eating and sleeping in work-rooms, and against unduly protracted hours.

24. *Safety thru workmen's compensation.*—No account of the safety policies of modern governments would be complete without a mention of workmen's compensation. Altho compensations have been provided professedly, nominally, in the first instance for the mitigation of the consequences of accidents, it has been expected that the employer's obligation to make payments for all accidents would render him more anxious to prevent them. And the expectation apparently has been realized everywhere.

The true net result of all these attempts of government to promote the safety of industrial workers is not unmistakably clear—at least it is not obvious. It

is clear that the effective validity and the results of governmental measures of safety have depended everywhere upon the intelligence and skill with which the need for them has been ascertained, upon the wisdom with which they have been determined, and upon the alertness and energy with which, in cases of need, they have been enforced.

A natural, early and common part of administration is the requirement of reports of accidents and such diseases as may be definitely charged to the employments. Definitions of accident, the degrees of seriousness which have held accidents under official notice, have varied widely, as have the required fulness and promptness of reporting. In the greater number of American jurisdictions there is still much to be desired in all these respects. But the workmen's compensation laws have done a great deal to improve conditions.

25. *Public inspections.*—The earliest safety laws contained no adequate provisions by which the public authorities might learn whether or not dangerous situations were continued or ended. Their general enforcement was not committed to any special officers; and, in particular, there was no provision for competent, thoro and frequent inspection of work-places. The consequent and complete nullity of the laws forced a new policy.

The public inspectors of work-places were not at first chosen in adequate numbers, and in this country they not infrequently were chosen rather for their

supposed importance in the work of partisan politics than for their ability to know conditions of safety in factories. Moreover, charges were frequently made—and they have not yet entirely ceased—that inspectors were not above receiving bribes to hasten their work and not to see things unpleasant for the employer or owner to acknowledge. Of late, however, there has been a marked improvement in the quality of American inspectors, as well as a considerable increase in their numbers. Their powers of entry and access have been enlarged. And, notwithstanding a greater readiness of employers to respond to the requirements of the laws, their services have come to be counted as strictly essential, in suggestion and guidance, if not in enforcement.

26. *New industrial commissions.*—Both the character and the administration of the safety laws have been bettered in the United States by the recent establishment of industrial commissions, to which are intrusted the general administration of the labor laws and, in particular, the development and application of rules of safety.

The essential function of the new administrative board is the same in every field. Both because they are not always in session and ready to act and because they have no close technical knowledge of industrial equipment and methods, legislatures are hopelessly incapable of keeping their laws adjusted to the rapidly changing conditions of the time, whether in the factory and in the mine or elsewhere. It is con-

ceivable that some of the American legislatures have been perfectly wise in specifying the contents of first-aid kits for every variety of occupation; but it is not conceivable that the best of known instruments and appliances now will be the best until the legislature convenes again. The illustration is but one of hundreds which might be given.

The wiser new course of the legislature is to lay down general principles of regulation only and—quite after the European fashion—to commit their elaboration into detailed requirements and their administration to a somewhat permanent board, which will have or will develop in its permanent technical staff the best and latest knowledge and skill. In the field of labor this board is the industrial commission. It will know whether the same first aid is adapted to a blast furnace and a candy factory and whether the instruments, lotions and other appliances for the best treatments are the same as they used to be.

27. *Results of regulation.*—One cannot well doubt that the efforts of modern governments have accomplished something for the greater safety and health of employes. It is true that, in the broadest view, there does not appear to be as great reduction in the numbers killed and injured, perhaps in the ratio of injuries to the numbers employed as might have been expected, but there is a decided improvement. And there are reasons why no great reduction should be expected. Safeguards and safety rules are still imperfect. They are as yet imperfectly accepted and

applied. Machinery becomes ever more rapid and more powerful. And—this of much significance—accidents are coming to be noted and recorded more fully, as society has undertaken to look out for them and as the injured have been assured of compensation upon making their injuries known.

It is certain as anything can be that most of the measures for safety have been well calculated to attain their end. It is certain that there is often a material gain, and also that employers are deriving great personal satisfaction from the consciousness that they are protecting employes. It should not be forgotten that great corporations, like the United States Steel Corporation, maintain special safety departments, with safety committees in which employes and officials work in unison to promote the safety of employes; that many thousands of dollars are spent yearly in this work; that the percentage of accidents has been steadily decreasing and that the measures taken often go far beyond the requirements of the laws. And it is also certain that when all unite, employers and others, in a common effort to preserve workers, producers, there will be a greater profit for all. The world cannot destroy its producers without losing, and it cannot preserve its producers without gaining, without gaining in wealth. The wise employers see this and are working actively toward that end.

Intimately connected with the certain gain in wealth is the prior gain in that which is above wealth, in the lives and vigor of men. This alone must hold the

governments of the world as well as the employers in their present course. The world, both rich and poor, is now too kind, as well as too democratic, willingly to sacrifice human life for money. Proof follows proof of this. There is proof in every city shaken by earthquake or swept by fire, in every region desolated by floods or wasted by famine, in every country ravaged by war.

28. *Promise of the future.*—There is, therefore, no reason to expect that governments will do less in the future than at present for the promotion of industrial safety; rather they will do more. None but the anarchist, who would have no government at all, denies that the state ought to look out for the lives and safety of its members. Even the strictest of the theorists declare that the first essential function of government is protection of the person. They were thinking most about attacks by hostile states or armies or by highwaymen, assassins and other men of violence. And in early times these were the physical perils most to be feared—at least they were most feared. But in all normal times of the present age murderers, robbers and invading armies are much less dangerous than microbes, contaminated water, unguarded cog-wheels, unfenced belting, smooth and unrailed stairways, imperfectly insulated wires and projecting set-screws.

The scope of governmental interference for industrial safety has broadened thru many years. It must continue to broaden. New methods and greater new

machines will carry new menaces. More of knowledge, more of democracy and more of altruism will impose more rigid standards of safety, and the most enlightened employer both from thoughtful self-interest and from moral inclination will not only follow the laws, but will gladly outstrip them.

### REVIEW

In what ways does the article of the United States Constitution giving the central government the power to regulate interstate commerce affect the labor contract?

What is understood by the police power of the state which enables legislative bodies to limit labor contracts?

Enumerate some of the chief regulations of the labor contract affecting sanitation and safety.

What are the reasons why compensation to workmen for accidents should be made a burden upon the industrial plants concerned?

What is meant by the Industrial Revolution in England? Compare briefly the times before and after the revolution?

How far are employes or employers responsible for accidents to workmen? How far are they an inevitable result of the industry?

Compare the laws of the United States for protection against accident with those of England and of other countries.

What practices are prohibited by laws for the physical or moral protection of workmen or workwomen and children?

Indicate the character of the industrial commissions established in the United States and their duties.



## CHAPTER VIII

### LABOR UNIONS

1. *Labor unions of recent origin.*—The labor union, as it now is known in all advanced industrial communities, is substantially a new development in the world, an outcome of the new industry of modern times. It has no real connection with the well-known trade or craft guilds of medieval Europe, for those were associations of masters rather than of employes and had other important objects as well as the industrial advantage of their members. Nor can the modern union fairly be connected with the occasional workmen's associations of which antiquarians have found traces here and there in the early history of several countries, England among the rest. At the earliest, its origin can be traced no farther back than the earliest part of the Eighteenth Century, a time when the conditions of modern industrial life were beginning slowly to develop.

2. *Origins of the unions.*—Even in the Eighteenth Century, however, unions of employes were rare and of slight importance. It was not until the great inventions and discoveries of the latter half of the Eighteenth Century and the first years of the Nineteenth had revolutionized production and employment and

had fixed the conditions of industrial life substantially as we see them now, that the unions commanded the earnest attention of society and government. Then their rise was natural, inevitable.

Then for the first time was the employe thrown upon his own resources. His position was no longer that of status; it was fixed by contract. Most employment, aside from that in agriculture, was in new occupations, in new localities and in new technical and social environment. The worker's duties, his hours, his pay, his incidental advantages or disadvantages were no longer settled for him by custom. Everything that he was to do or to get was coming to be fixed by contract. Tho when highly skilled he was strong and independent, individually he was usually a weak bargainer, ignorant, poor, one of many to make terms with a single employer, and driven hard by the needs of himself and his family. He could do little more than accept such duties, such wages, and such places, hours and conditions of employment as might be offered him.

And the typical employer of the new regime would naturally under untried conditions at first offer no more than he must. He, too, was a new man in a new position. Usually he had not been born and reared in intimate association with his work-people. Many of the employers knew nothing of the maxim, "*noblesse oblige*," altho, of course, there were numerous individual exceptions. Apparently some felt no obligation to deal generously, kindly, or even fairly

with the strangers whose labor they bought. There were rich prizes for those who could accomplish most and accumulate most, great wealth and its resultant social and political advantages.

Naturally, therefore, the plight of the industrial laborer was often sad. Few provisions at first were made for the comfort, health, or safety of the workers. Few could be made; for neither masters nor men knew the ways of safety. Neither knew even the dangers of the new industry. And the workers suffered for the common ignorance. Wages were very low. Hours were as long as the needs of both employers and workmen might dictate and human strength might endure.

It is not in man, unless completely crushed, to suffer such conditions without struggle for relief. Accordingly, the men began to come together for mutual help, and that was the beginning of the modern organization of labor. Especially favorable to the formation of the unions was the new massing of great numbers in close proximity one to another. The meeting, discussion and concerted action which are essential for the establishment and maintenance of unions would have been much more difficult, practically impossible for men scattered about the country, as the greater number of laborers of all trades were formerly and as agricultural laborers are still.

3. *Growth and present extent of unions.*—The rise and growth of labor unions have been attended by many difficulties, but in spite of the ignorance, weak-

ness and poverty of promoters and members, in spite of the lack of adequate leadership, of the indifference, prejudices and opposition of the public, and of the active and determined hostility of employers, they did establish themselves, and they have grown to be a powerful influence in the business world. Now, after something like a century of secured existence, they number millions of well organized and determined members, they have large accumulated funds and many leaders of high character and great ability, and they enjoy no small measure of popular sympathy. In each of the three most advanced industrial countries, the United Kingdom, the United States, and Germany, they have a membership of some three millions or so. In other and smaller countries their numbers are smaller, altho in some they are a greater part of all employes.

Even where labor is organized most widely, the unions include but a small minority of all workers, and in some occupations their movement has made only a little headway. In the United States the union men are not far from ten per cent of all those who work for wages and several of the largest trades are substantially unorganized. The millions of agricultural laborers, and personal and domestic servants are kept from organizing by their remoteness from one another or by their lack of interest or motive, perhaps by both. Others remain unorganized for diverse reasons. And the failure of the unions to make appreciable growth in the most recent years

may perhaps be taken as evidence that their organization has reached something like its natural limit.

4. *Need of regulation by government.*—But the unions have become far too large, too powerful, and too aggressive to be disregarded by government. They have great material and immaterial resources. They have learned when and how to deliver their blows most effectively. They have able and strong leaders. Relatively small tho their numbers may be in the grand total of all American employes, they include a good part of those employed in certain trades which are of vital importance in modern industry, as in construction work and in transportation. One way with another they often have it in their power to paralyze the industry of a community or even of the country. Long ago governments everywhere have learned the necessity of adopting policies of control or regulation.

5. *From suppression to regulation.*—In a broad way of speaking it may be said that the first phase of public policy has been suppression of what seems an evil, like monopoly of either capital or labor; and that later a number of practical considerations have caused the relaxation of restrictive measures and the development of a more or a less close regulation. In the United Kingdom, where labor unions and all of their problems came earliest, the reversal of policy has been more complete than in other lands. Now in all lands is seen the unwisdom and the futility of attempting to prevent men's organizing in an age of

organization. And so everywhere employes organize, under more or less of regulation.

6. *British experience and its teaching.*—The British conspiracy laws had been enacted largely for the protection of trade. And, as labor unions present every outward aspect of conspiracies, it was but natural that they should be attacked under the conspiracy laws. Early in the Eighteenth Century it was held in a leading case that combinations for the purpose of securing higher wages were punishable as conspiracies; and this principle, without important modification, prevailed for nearly a hundred years. The common law, harsh as it was, was fortified with statutes, notably with the conspiracy laws of 1799 and 1800, the latter of which specifically penalized the essential activities of all unions, agreements for demanding increase of pay, shortening of hours, or other improvement in the conditions of employment.

But many forces began to work for the relief of the unions and their members. The evil conditions under which the new working class lay became manifest to all. As the workers gained in understanding, and as wiser and abler leaders came to the front, an increasing temperateness in the unions moderated the public fear of them. The greater political power of the common people, largely secured and at times much aided by the deeply seated rivalries of the landed and capitalistic classes, made it no longer possible for a British government to disregard the demands of the industrial employes.

And so, little by little the laws which had hampered the British unions were done away. The first great step in the new direction was taken in 1824, others in 1871 and 1875, and the latest in 1906, when some remaining restrictions upon the natural and customary activities of the unions were abolished and the members were held only as individuals for their own violations of law.

7. *Early suppression in the United States.*—As the United States had inherited the British common law and also had adopted British statutes against conspiracy, the ground in this country was already prepared for a policy of suppression, as soon as the transfer of the new industry across the ocean developed on this side the Atlantic the industrial employe and his class interests. For a considerable period, as it appears, labor disputes were of slight importance. While the courts generally held that all of the employes' combinations of an effective sort were illegal, as conspiracies, an adverse public sentiment and the slight practical importance of the issues involved prevented the establishment of a fixed policy of suppression. And in some states, as New York, old conspiracy laws were modified so as to bear somewhat less harshly upon employes who combined to better the terms of their employment by keeping themselves from disorder or other specific offenses.

8. *Beginnings of present American policy.*—In the course of the great industrial revival which came in this country after the Civil War and which be-

came particularly marked toward the close of the century, labor unions multiplied here and grew, as in a similar stage of industrial advancement they had multiplied and grown in the United Kingdom. Here too their rapid growth and their aggressive policies often provoked a sharp hostility in employers and in public authorities. Frequently they were attacked in court. Again and again the common and statute laws against conspiracy were invoked. Statutes were enacted which were designed to make it more difficult for the unions to indulge in their characteristic practices or even to maintain their existence. Anti-monopoly laws were so drawn as to cover combinations of laborers; and at length the Federal anti-trust law, the so-called Sherman Act, which had been passed apparently with sole reference to capitalistic combinations, was so construed by the United States Supreme Court as to cover combinations of laborers as well.

But as the methods of the unions with infrequent exceptions, became less objectionable, and—here a fact of prime importance—as office-holders became aware of the value which the “labor vote” might have for themselves, there slowly but steadily developed a strong movement for the release of combinations of employes from many of the legal restrictions under which they stood. Not a few statutes have been enacted to limit the anti-conspiracy laws in their application to labor unions and specifically to legalize one and another of the necessary activities of the



unions. Much the most far-reaching of these statutes is the Federal Clayton Act of 1914, which aims to exempt combinations of laborers from the application of any and all Federal anti-trust laws.

9. *Policy of American government not yet settled.*—As yet it cannot be said that there is any settled policy of the American governments in their relations to labor unions. Even the meaning of the Clayton Act is not yet clear. Few indeed are the principles which are accepted everywhere. And yet some broad tendencies may be observed. It may be possible to formulate some of the principles which control them. As yet it is not safe to attempt more.

10. *Mere existence of unions not threatened.*—The mere right to exist is nowhere denied American unions. There have been one or two cases in which courts have sought to dissolve unions, as illegal combinations of capital frequently have been dissolved, but no finally effective order of this extreme character has yet been obtained. It is thought by many that the Clayton Act of 1914 definitely safeguards the unions against destruction by Federal authority; but good authorities also think otherwise. The fact that the typical American union is not only unincorporated, but also so informally organized as to have no legal entity makes it difficult for even judges to dissolve it.

Rarely indeed is it that the union is attacked in court. Rather it is this or that activity of the union, as the strike, the boycott, or the picket. And the

distinction is worth remembering. These same activities are not easy for unorganized laborers, but they are possible; and, by whomsoever they are initiated, they are equally legal or illegal. Every union is secure in its existence as long as it limits itself to purposes of whose lawfulness there can be no question. And there are many such purposes, of undoubted legality, in the maintenance of systems of mutual benefits, in the collection and distribution of information of trade conditions, in the support of legislative measures, in the making of collective trade agreements with employers, and so on.

11. *The strike.*—Striking is the union man's warfare. A union pledged never to strike would be like an army sworn never to join battle. The most important relations of government to the unions are those which affect the right of striking. And upon this vital issue American courts appear to be sharply divided. The New York Court of Appeals has held, by Judge Parker, that the right of one man or of many together to quit work is absolute and that the reasons for quitting cannot be questioned by others. More often, however, it has been held that the quitting of work may be permissible or not according to a number of conditions or circumstances. Both motives and results must be considered. If the strike interferes with interstate commerce, it is unlawful. Moreover, while a strike for the strikers' gain, in wages, hours, or other conditions of employment, is lawful, a strike designed to injure the employer is

unlawful. This of the mere strike, without boycotts, pickets, and the like.

This is moderately clear. But how shall the line be marked between employe's gain and injury to employer? Is the closed shop an employe's gain or the employer's injury? What about the strikes which have four motives? Can judges and juries determine the motives of strikers when they are not avowed frankly? Or even when they are? And is it not holding men in involuntary servitude to prevent their striking?

Perhaps there is a difference between striking and quitting work. When a man quits work, he considers himself no longer an employe of his former master and he goes about his own business. And when many men quit work together, they follow a similar course, and they do not continue in concerted action for retaining their employment. The right of any man, or of all men, to quit work cannot be taken away. Very likely the right to strike can: that depends upon what is done after the quitting. It is most unfortunate that the judges, clear-headed as they usually are, have not always made these distinctions plain but often have confused the mere quitting of work with one or more other activities, picketing, boycotting, or what not.

12. *The boycott.*—The legality of the strike, as also its morality, depends upon the character of the measures by which it is supported. And among these the boycott is not the least often employed. About

it too there has been confusion of thought. As it has come to be used in connection with labor disputes, the term means the turning of business away from an employer whose men have struck, and perhaps also from others who have dealings with him, in order to help the strikers win their strike. In most of the states, boycotts have fallen under the severest judicial condemnation as conspiracies. In some few others they are not illegal. Probably the principle toward which courts are feeling their way, according to which, therefore, governmental policy is being shaped, is that those directly involved in the strike may turn their own patronage from and to whomsoever they choose, but that they may not combine to force others into line with them by boycotting those others.

13. *Picketing*.—Unions place their pickets in the way of those who may come to take the places of strikers, near the place of work, along adjacent streets, or at the steps of incoming trains, and they admit no other purpose in the picketing than to inform any who come that there is a strike or gently persuade them to remain away. Picketing of that character, proved to be such, doubtless is permissible. In some states it is expressly sanctioned by law. But more often it is held by courts and other public authorities that picketing inevitably develops into intimidation and coercion, if not by actual physical violence, at least by spoken or implied threats, or by the very atmosphere which it creates, and that, for this reason, it must be condemned generally.

14. *Injunctions in the control of unions.*—As many of the activities of unions may impair the material or immaterial property of an employer, and as employes ordinarily are not financially responsible for damages they may have caused, American courts have adopted the practice of restraining strikers and their sympathizers from doing this thing or that, from striking, from boycotting, from picketing, or from doing other and more specific things; as publishing certain statements or going here or there. As the restraint is effected by the formidable agency of an injunction, disobedience of which is punishable by imprisonment in the most summary manner, workmen have become very bitterly opposed to it. By an act of Congress in 1914, the "Clayton Act," and by similar statutes in several states there has been a beginning of legislation to restrict the issuance of injunctions in labor disputes.

15. *Financial liability of members of unions.*—By the decision of a British court in the famous Taff Vale case in 1901, individual members of trade unions were held financially liable for the acts of their unions; and by the decision of the United States Supreme Court in the so-called Danbury hatters' case, finally decided in 1915, this same principle is established in this country. The situation is made especially serious for the union men by the fact that, under the Federal anti-trust laws, triple damages may be assessed for any financial injury which their acts may have caused an employer.

16. *Equal rights for all, the American policy.*—Thru all the statutes and court decisions which relate to strikes, boycotts, and picketing, or to the persuasions, intimidations, and coercions by which strikes may be supported, and, indeed, thru all the laws and decisions affecting labor unions and their activities, there runs an apparent purpose of government to deal equally with employers and employes. Equal rights for all is the American principle. The employers' blacklist and the employes' boycott are condemned equally. The conspiracy laws apply equally to combinations of capital or of employers and to combinations of employes. As capital, associated in corporations, is held financially answerable for its corporate action, so labor, associated in unions is now held financially answerable for its united action.

17. *Legal equality and actual equality.*—But, as in the general regulation of the labor contract and in all the relations of government to labor, so in the regulation of labor unions equality of legal rights may not mean equality in actual condition or even actual equality of treatment by government. The individual employer has great advantages over the individual employe in the making of the labor contract. The single laborer has no means of support aside from his labor, which he must sell regularly in order to live, for his commodity, his labor, perishes day by day. Failure to conclude a bargain means for him the loss of everything, while it means, perhaps, the loss of a hundredth or a thousandth of the employer's

anticipated gain. And frequently not so much, since there are usually many laborers seeking employment and seeking it in vain. The single laborer, without his union, knows nothing of his employer's ability to pay, or about the general condition of his business; whereas the employer knows sufficiently the condition of the average employe. Thoughtful readers can elaborate these differences. The practical effect, therefore, of a governmental policy which prohibits alike combinations of employers and combinations of employes is to confirm and perpetuate the original, "natural" if you will, advantages of the employer.

Essentially so it is also in other relations. The strike and all of its effective measures of support must be so open that government, if it will, can observe, punish, and control them. But the employer's lookout cannot as a practical matter thus be observed, punished, and controlled. Boycott and blacklist may be equally condemned in the statute books; but the blacklist can be made entirely effective by means difficult or impossible to prevent, by spoken rather than written words and by other equally available devices.

In some relations, indeed, present American policy holds the laborer at a legal as well as at a practical disadvantage. Corporations, the employers' unions, almost invariably are limited in their financial liabilities, so that members may measure and limit their individual liabilities as they will. But the Danbury hatters' decision makes the labor union a body with unlimited liability for its members. The unions, how-

ever, do not wish to incorporate. They feel it would subject them to too close supervision and regulations.

18. *Democracy will demand actual equality.*— That a nominal equality of treatment for employer and employe is not always an actual equality of treatment is the firm belief of many, employes and others. That a nominal or legal equality may be consistent with the continuance of great inequality of actual condition will be denied by none. None, therefore, should blind themselves to the extremely strong probability that the development of American policy in the future will be toward a comparative disregard of apparent, theoretical, nominal, or legal equality of rights and responsibilities for labor unions and for combinations of employers. For good or for evil the democracy which characterizes our state and government will probably eventually enable laborers to secure their demand for such arrangements and policies as will enlarge even somewhat more the activities and powers of labor unions. How soon or how certainly such a result may be attained will depend largely upon the wisdom of the union and the consideration shown by them for the rights and the welfare of the public.

#### REVIEW

Where and why did labor unions originate? Give an estimate of the extent of labor unions in the United States at the present time.

What actions were taken by the United States and Great Britain regarding the labor unions during the first years after their establishment?



What aggressive actions of the labor unions have been opposed by legislation?

What has been the political influence of labor unions in the United States and Great Britain?

What are the provisions of the Clayton Act of 1914 that affect labor unions?

Indicate the attitude of the United States courts and of the state courts regarding strikes and boycotts.

What is the attitude of the courts regarding injunctions in times of strikes?

What is the attitude of the British and American laws regarding the financial liability of members of trade unions?

Consider the relation between legal equality and actual equality of employer and employe.

## CHAPTER IX

### THE EMPLOYMENT OF WOMEN AND CHILDREN

1. *Hiring of women and children formerly infrequent.*—A hundred and fifty years ago and more, before the era of modern industry, the hire of women and children to work for wages was very rare outside of domestic service. In exceptional cases they were. An early English poet gives us a charming picture of the textile mill of Jack of Newbury, in which scores of pretty maidens and merry children worked and mingled songs and laughter with their labor. But all that was exceptional—and poetic. For the most part women and children workers had only their part in the so-called domestic system of industry, under which the great part of the manufacturing of the time—true manufacturing, hand-making—was carried on in the homes of the workers and in connection with the common run of household duties. In this way yarns, cloth, and many other goods were produced, even iron wares; and at any tasks suitable to their capacities, their strength and skill, both women and children worked regularly, or rather irregularly, at manufacturing alternated with domestic cares. Certainly there was not much of idleness for either the women or the children of the com-

mon people. In the regions given to the making of yarns the young women of the household worked so much that they were called "spinsters."

2. *Early environment of woman and child workers.*—Women, young people, and children worked mostly in their own homes, which were scattered widely here and there over the country. They worked directly for the heads of their own household, not for wages. Conditions were not unlike those which may be found nowadays on some rare farms where a large and thrifty family finds many tasks to fill the hours of old and young. Life was hard in many ways and, on the whole, much less satisfactory than in the modern world. But there were healthful variety and alternation of tasks. And, in the home atmosphere, there were the best known assurances of physical and moral safety. And yet there were many individual cases of cruelty and hardship, especially when orphans or other dependents were "bound out" for a term of years.

3. *The coming of modern industry.*—Then, in the last half of the Eighteenth Century and in the first years of the Nineteenth, came the great inventions and discoveries, and the Industrial Revolution. As steam-driven machinery could be utilized most economically by bringing large numbers of operatives together where the new power was generated, workmen and their families were drawn from their scattered homes into densely populated communities. The rapidly developed division and subdivision of operations

and of tasks, the so-called divisions of labor, created tasks for which the lighter and finer touch of the woman or child is distinctly better. Here were the elements of a natural and strong demand for the labor of women and children. And the supply was at hand, in the families of the workmen.

The numbers of the women and children in industrial employment became very great. In some broad fields they outnumbered the adult males by two to one; and in particular operations they displaced men completely.

4. *Demand for regulation: sources and grounds.*—The employment of women and children had not continued long, when demands for its regulation were heard; and these have continued with increasing urgency until this day. Men, who found their opportunities for employment narrowed or threatened and their wages reduced by the competition of those able and willing to work for low pay, have complained from the first. The women themselves, at least in this country, were among the earliest to seek the help of government. And more and more disinterested humanitarian motives have been in evidence.

It has been notorious from the first that the competition of women and children has reduced greatly the pay in employments which formerly yielded acceptable wages to men. But those who have suffered from the new competition rarely have alleged openly their own personal disadvantage as ground for governmental interference. Commonly demands

for regulation have been based upon the ground of harmful physical and moral results, first for the women and children employed, and ultimately for indefinite other classes or for all.

5. *Basis and field of regulation in the United States.*—In the United States there have been evidences enough of harmful results and vigor enough in the demands for regulation to secure the enactment of many restrictive laws. These for the greater part have been limited in their application to mechanical occupations, manufacturing, mining, constructions, transportation, and the like, while mercantile and professional occupations are regulated less, and household and landed employments are regulated least or not at all. Restrictions of the employment of women and children have been supported not only by a general and hearty approval in public opinion but also by a surer constitutional basis than most other labor laws. The physical and other weaknesses of women and children make their protection under the police power especially proper. Moreover, as not vested with full civil rights, they have been in a peculiar sense the wards of the state.

6. *Exclusions from employments.*—For reasons of supposed physical or moral danger, women and children are excluded wholly from certain employments, as from mining or underground work generally, from bar-rooms or saloons, from cleaning moving machinery, and from a few other specified occupations. Hitherto in the United States women and children

have been excluded only from such employments as the common judgment of people has pronounced harmful. Particular significance however, is seen in the principle of a recent Wisconsin statute which forbids the employment of any female in any occupation which is "dangerous or prejudicial to the life, health, safety, or welfare" of such female. The presence of dangers is for the industrial commission to determine, and special services of medical experts may well extend the scope of the law.

7. *Hours and time of employment.*—Shorter hours, so much desired by most employes, have not been possible of attainment for many adult males thru action of government. Indeed, they have generally preferred to attain that end by struggle rather than by law. But the first definite development in American labor legislation was in the limitation of hours for women and children, and it has continued in a vaster and vaster body of statutes. The present tendency appears to be toward an eight-hour day in mechanical industries and toward somewhat longer hours in less exhausting employments. The eight-hour day has become established for children in a third part of the states, but is not nearly so widely adopted for women.

In many states there are stipulations, sometimes apparently very rigid, as to the allowance of interruptions of labor, for eating or other purposes. One of the most favored regulations of latest years is the prohibition of night work, night being defined variously

but commonly as covering something more than the period taken by normal people for sleep.

Four states, Massachusetts, New York, Connecticut, and Vermont, have accepted a common policy of foreign lands, in forbidding the employment of women within specified times from childbirth.

8. *Age requirements, physical and mental qualifications of children.*—Even in the occupations which are not forbidden them children commonly are not allowed to be employed until they have attained the age of fourteen years for employment in mechanical industries; and there is now a well-defined movement for raising the age to sixteen. The age, however, varies in different states.

There are not a few laws which impose conditions also of general physical fitness, which must be determined and evidenced by physicians' examination and certificates. Educational requirements are still more common, the most favored being some proficiency in elementary English subjects.

9. *General comfort, sanitation, and rest.*—Nearly every state in the union has a law requiring seats for women, to be used freely while at work if the occupation permits sitting, otherwise to be available while active work is not going on. Several states have similar provisions for the seating of child workers.

Both the interest of employers and the stipulations of law demand that employes be supplied with necessary toilet conveniences. Nearly everywhere these

must be provided separately for women, and not infrequently they must include dressing-rooms.

10. *Arguments for and against regulation.*—The merit of the regulations which have been mentioned, and of others which might be added, is to be judged by their practical results and only after the balancing of a number of considerations. On the one side are undoubted evils: early and exhausting labor, unduly limited education and training, neglect of household duties and of children, not infrequent breaking of health, physical, mental, and moral deterioration, incapacity for healthy motherhood—all these to the detriment of those in whose lives they first appear and of their offspring and thus to the injury of society as a whole, even to the hurt and cost of industry itself. On the other side there are gains, at the least temporary ones: additions to meager family incomes, perhaps the early acquisition of industrious habits and useful abilities.

11. *Deterioration thru employment the primary fact.*—In the end the wisdom of the regulation of the employment of women and children will be found to turn upon the answer to the question whether or not their unregulated employment makes for their physical, mental, and moral betterment, makes of them and their offspring better producers, better citizens, better men and women. And the answer at present seems not uncertain. Thousands, perhaps millions of these classes of workers have suffered no appreciable harm from their employment. But it is not open to



doubt that many millions of others have suffered great harm. When modern industrialism was not yet a full generation old, British recruiting officers and their medical men noted and deplored the physical deterioration of the milling populations in the north of England. And the moral deterioration was as certain as the physical. Of course, the general movement toward better sanitation, good working conditions and shorter hours has greatly improved matters; but still in many places, including American communities, substantially the same experience has been had. A greater prevalence and deadliness of disease, increasing sterility in married women, a higher death rate in infancy, these and other unhappy developments have been traced again and again.

Particularly unfortunate are the consequences of the industrial employment of married women and mothers of young children. Perhaps the physical hurts which may come to mother and children are not the most serious results. To make a home such as it must be, if it is to serve its supremely important ends in civilized society, is a full-time job. And the train of evil consequences, when a woman gives to her home, to her house, her husband, and her children, only poor remainders of her time and energies, runs too far to be traced to its end. And yet the evils attributable to the idle, ignorant woman with little in the small poor home are often still more deplorable.

12. *Idleness and industrious habits.*—The early acquisition of industrious habits and of useful abilities

certainly is worth while. Just as certainly idleness—too much of it—is as dangerous as Doctor Watts tells us. But just as certainly, also, the training, education and other advantages which youth may get in the schools, in some measure of leisure if not in idleness, and in play itself are very much worth while. The man who never played ball or went fishing will find in his old age very inadequate compensation in a memory of dollars earned.

13. *Need to supplement family incomes.*—The frequent inadequacy of the father's wages to cover the necessities of the family is usually given by the working people as the strongest reason for the employment of wife or child.

These and other surface facts are known to all. But there are other facts which do not always have due consideration. In some employments it has been the competition of women and children, especially those living at home and so quite able to work for less than living wages, that has forced down men's scale of compensation, or even driven them quite out of the employment. And where men still hold their field without woman's rivalry the man's pay is likely to be reasonably adequate for family needs. Bricklayers need to be neither especially intelligent nor especially strong, but they make good pay.

14. *Richer permanent production doubtful.*—Often it is assumed as clear beyond dispute that the employment of women and children at tasks which men could perform only less well and at greater cost to

employers must result in a cheaper and more abundant production and that this, in turn, must diffuse its benefits indefinitely widely among all classes. Thus, it is held, the very ones we propose to help by limiting their employment would be as certain as any to be harmed.

Here may be a double error. First, employers often do not know what are the most efficient and economical classes of laborers. The average employer long has compared efficiencies in his machines of wood and steel; altho he has not always compared accurately and acted upon the results of his comparisons. But not until these present days of so-called efficiency systems have corresponding efforts been made to look closely into the efficiency of the machines of flesh and blood. It has been and continues to be a hasty and gratuitous assumption of most employers of women and children that low wages mean low labor costs. The head of a very prosperous manufacturing corporation, Mr. Charles F. Smith, president of Landers, Frary, and Clark, of New Britain, Connecticut, has declared his different conviction, as follows:

Some three years ago I became interested in the child labor movement. Soon after the company I represent, employing now about 2,000 operatives, 400 of them minors, stopped employing children under sixteen years of age, and for a long time has had no employe on its payrolls under that age. It is to be confessed frankly that this original action was prompted by sentiment; but, as it has worked out, it is reason based on experience that makes us now abide by it.

But, secondly, even tho an employer might find a temporary gain in hiring children and women for low wages, such gain cannot be realized permanently by society, if it comes thru an impairment of the quality of men and women who work. Society, and employers with the rest of us, must lose ultimately by any deterioration of human capital. Farmers do not put their half-grown colts to the plow. They know that there would be a double folly in working thus early the animals from which they expect to breed for future use.

15. *Gains uncertain, losses certain.*—Gains thru the industrial employment of women and children are, therefore, uncertain, limited in their duration, and often involved with a loss of greater values. For the greatest values in the world are not masses of products, however useful, but the lives and characters of men and women. And these values are not merely imperiled, they are certainly impaired by the unrestricted employment of women and children.

No apparent necessities of competitive industry in any region can justify full license in the employment of women and children. Certainly such states as Illinois, New York, and Massachusetts, which have gone farthest in the regulation of women's and children's labor, do not appear to have checked their material prosperity.

16. *Public regulation necessary.*—Since, however, employers and employes alike sometimes fail to understand, since some of both classes pursue their own

apparent and immediate advantage to the neglect of the broader and truer interests of themselves and others, since, for one or for many reasons, women and children are taken into industrial employment more than the prevailing public opinion of the time pronounces proper, government, the instrument of the public will, must assume the duty of regulation, as the only means for the present of securing general conformity to accepted standards of living and of working.

17. *Discretion necessary in regulation.*—If it is clear that public regulation is necessary, it is also clear that not every public regulation is necessarily for good. General prohibition of all industrial employment of women and minors would be so evidently unwise that it never is proposed by thoughtful persons. Lines must be drawn as the fullest possible knowledge of actual conditions and experience may dictate. Less and less does it appear safe to lay down sweeping and unconditional general rules, even tho the allowance of exceptions may make administration more difficult. The control of any of the relations of modern industry is too difficult to be effected by a careless application of simple rules.

18. *Regulation not without its evils.*—In passing judgment upon such regulations as have been attempted in the United States, or upon any others, it must ever be kept in mind that no policy of government, can be expected to be quite unattended by evil consequences. The bad must be taken with the good,

just as it must in the private life of individuals. It may be that a rigid eight-hour day for women or for men in mines means distress for some or many, who safely might work longer and earn more, and who need all they can earn. But this does not prove the eight-hour day unwise, if it brings great advantage to many. Sad indeed it may be for some family to live on the scant earnings of the father. But sadder still it would be if half-grown children were everywhere at work.

19. *The minimum wage.*—Most prominent among the new movements to aid women workers is that for the minimum wage. The movement originated abroad in the Australasian Colonies in the nineties, followed by Great Britain in 1909, in France in 1913. In England and her colonies, the laws aimed to secure for workers—men and women—a living wage. In France they began with trades where wages were very low with the sweated trades. Now they have gradually extended until they include the best paid with the lowest paid workers.

20. *Laws in the United States.*—In the United States, they began in Massachusetts in 1912. In the next year, Nebraska followed with California, Colorado, Minnesota, Oregon, Utah, Washington and Wisconsin. In 1915, Arkansas and Kansas passed laws, while New York, Ohio and Michigan have been carefully investigating the subject. Ohio's constitution in 1912 authorizes the legislature to enact a minimum wage law covering all classes of employes.

In all our states, however, the laws are strictly limited only to women and children.

In Massachusetts and Nebraska, the Boards make recommendations, but have no powers of enforcement. Public opinion is relied on. In the other states, provisions are made for enforcement. In Utah and Arkansas, the rates are fixed in the laws. In the other states, a wage Board or an industrial commission determines the minimum rate.

21. *Decisive experience still lacking.*—Present judgment upon the policy of the minimum wage must hang largely upon an analysis of principles. In the United States, the laws have scarcely gone into effect. In British jurisdictions experience has been longer; but its teachings have not yet been ascertained conclusively, if indeed it can be said to have developed its ultimate consequences. And again the conditions are so different that we must probably await the results of our own experience in this country.

22. *Extent of low wages.*—Low wages, as readers of this volume will judge high and low, are doubtless very common. A census return for the manufacturing industries of the United States in 1905 shows the average weekly earnings of 2,619,000 males over sixteen years of age at \$11.16 and the weekly earnings of 588,600 females in the same age period at \$6.17. But not all of the 600,000 women were self-supporting: only a fifth part of them were.

This does not prove that women's wages were and

are satisfactorily high. But it does prove that they are not generally working for less than a living wage, and it invalidates the argument that generally they are oppressed by their employers and that the industries in which they work are "parasitic." Doubtless there are some few industries which fairly may be considered parasitic. And wherever any of these evil conditions are found something ought to be attempted for their ending.

23. *Attitude of employers.*—It appears that employers generally—in the United States, as well as abroad—have been disposed to give the experiment of a minimum wage a fair chance to prove its success. They have shown a willingness to face temporary inconveniences and difficulties in the expectation of the favorable developments which may come. It well may be, therefore, that in the not distant future a clearer and fairer view of the facts will make necessary a less favorable judgment than those which have been most often presented hitherto.

24. *Caution in adopting the minimum wage.*—It cannot be questioned that the policy of the minimum wage is more difficult of wise formulation and more difficult of wise or effective administration than almost any other of the industrial policies of modern governments.

It is not unlikely that Massachusetts has marked the wisest course, as she has in so many other questions of industrial control. The possibilities of harm are certainly least where just standards of pay are de-



terminated by the most capable experts available, and are then enforced by an influence no less powerful and no more rigid than a well informed public opinion.

25. *Present regulations beneficial, as a whole.*—Except that perhaps they are rather less radical, American regulations of the labor of women and children are substantially like those of foreign countries. Taken as a whole, they doubtless have made for the welfare of the people, even for the industry of the present generation. It is a greatly relevant fact that in just the period within which regulations have been carried farthest our material prosperity has been greater than ever before. Nor would a closer look, comparing regulation with regulation, industry with industry, state with state, and time with time, give any reason for supposing that the increased regulation, taken as a whole, has impeded our industrial advance.

#### REVIEW

What industrial change brought about a large increase in the hiring of women and children? How were they employed before the introduction of the factory system?

In what way does the demand for regulation for the employment of women and children differ from that for the regulation for the labor of men?

What are the main provisions regarding the hours and times of employment of women and children?

What are the chief age requirements and physical and mental qualifications of children for regular employment?

Is the regular employment of children ever to be commended as a means of preventing idleness and as a means of encouraging industrious habits?

Does the employment of women and children have any appreciable effect upon men's wages? Consider this question in detail.

What states have the most advanced and best laws?

How far do you consider such regulative laws as exist beneficial? How far harmful?

What are the provisions of the Massachusetts and Nebraska laws regarding the enforcement of minimum wage rates?

According to the United States Census what have been the average weekly earnings of males in manufacturing industries? Of females of the same age periods?

What is the special need for delay and for caution in the adoption of further minimum wage laws in the United States?

## CHAPTER X

### SOCIAL INSURANCE

1. *New risks in modern industry.*—On the whole, the conditions of industrial life, as of life generally, are far better in the present age than ever they were before. There is a richer and more varied supply of good things to enjoy. The common people today consider as necessities what even the rich did not have as luxuries in the late middle ages. How many people today realize that in the golden age of English literature, Queen Elizabeth and King James ate meals, without forks, using their fingers and had no bath tubs? And yet the past had its advantages. A hundred and fifty years ago and more, before the great changes which made up the Industrial Revolution, men did not have so much, but what they did possess they held more securely.

The new vicissitudes of modern industry affect all classes. Some may believe that the employer is affected most, with his world market, his production in advance of sales or orders, his vast investments in fixed and specialized capital, his many alert competitors, his large reliance upon credit, and his constant peril from shifting demand. But the modern laborer also lives and works under great hazards, much greater

than laborers in former times had to face. Two misfortunes, both quite unknown in former days, threaten much more seriously now. Unemployment, with its stoppage of income, was formerly very infrequent. And when, by unusual chance or by the regular turn of the seasons, wages might be suspended, cottage and plot of land, with rights of common, would carry the family along. Nor were there so many industrial accidents, causing disablement, maiming or death, before the era of powerful machinery, tho quite possibly the frequent accidents and diseases of farms and boats with utter ignorance of sanitation and disinfection caused as much illness and death.

2. *Working people seek insurance but little.*—The more comfortable classes and the well-to-do habitually resort to insurance as a means of covering their exposures to losses of any and all sorts—literally too numerous to be listed here. By insurance they help themselves thru innumerable financial misfortunes of every kind.

If insurance is helpful to them, it is much more helpful to the ordinary laborer. For him insurance is not merely the best protection against privation thru mischance: it is the only sure protection reasonably to be considered or advised. A wise plan for a part of his savings is insurance. It gives nothing to those who do not need its aid. But to those who do need it, it affords a succor more adequate than they could possibly have provided thru their own individual efforts, and that at a cost, in money and in

self-denial, which is small for each because it is paid by all.

Yet, in a broad way of speaking, wage earners seldom seek insurance. A part of the reason is in their lack of appreciation of its benefits. Another part is in their lack of money. But, whatever their reasons, modern workers have done comparatively little to cover their own risks with insurance.

3. *Social insurance; meaning and kinds.*—All insurance is social by its very nature; but social insurance, in a special sense, has come to mean insurance provided or administered under public authority for the great body of the people, practically for wage earners. Commonly, too, it is offered or provided for its beneficiaries at a charge less than its full cost, so that society or some social group, usually employers, bears a part or the whole of the expense.

More or less widely, practical considerations have induced statesmen to establish systems of social insurance against several of the commonest misfortunes of life, against death, industrial accident, sickness, invalidity and unemployment. This development in public policy has come about within a single generation, and it has been justified upon two distinguishable grounds, the general interest of all classes in a reduction of want and its various costs to society, and the obvious particular interest of the working classes, for whom public policy is coming to be shaped more and more in these democratic times.

4. *Life insurance.*—Fraternal societies and mutual

insurance associations provide a small amount of life insurance for working people. The American "industrial" companies sell amazing amounts, mostly to the same classes, having now outstanding nearly 80,000,000 policies to the amount of \$4,000,000,000. But much of this insurance is either unsound where carried out by assessments or costly because the people make the cost of collection so high; sometimes it is both.

On the whole government has not done much to provide simple life insurance in amounts and on terms possible for the average wage-earner. A beginning has been made in Great Britain, France, and a few other countries tho there are differing opinions regarding its advantages to society. Italy has assumed the monopoly of all life insurance. Massachusetts has fostered insurance thru the publicly supervised savings banks; and Wisconsin has begun the issue of policies directly by the state. But none of these voluntary systems has accomplished much. But the problem of safe and economical life insurance for working people by either the state or private companies has not yet been solved. If the cost of collections from the wage earners could be lessened, much more could be accomplished by private companies.

5. *Workmen's compensation.*—Insurance against industrial accidents, commonly called workmen's compensation, is the most widely practiced and most generally approved form of social insurance. First

brought into operation in Germany in 1884, since then it has spread to nearly every advanced industrial region of the world, to every quarter and corner of Europe, to Australasia, Africa, Canada, Japan, Mexico, South America, Cuba. Tardily accepted in the United States in 1911, within the brief space of five years it has passed to thirty-four of the states and territories, which have three-fourths of the population of the country and more than three-fourths of the industrial employment.

6. *Frequency of industrial accidents.*—Returns from many states and countries, both before and after the enactment of workmen's compensation laws, show in every branch of modern industry a greater frequency of accidents than most people would have believed possible in the absence of conclusive proofs. In this country the number of persons killed run into the tens of thousands a year, while the injured are to be counted, not by hundreds of thousands, but by millions. The United States has the unhappy distinction of a higher accident rate than most other lands; but conditions are substantially the same wherever modern industry has established itself.

7. *Causes of accidents.*—As conditions have obtained hitherto, it has been customary to look upon these accidents as largely inevitable, as industry's necessary toll of life and limb. At the time agitation was rife for the enactment of compensation laws in this country, the best returns here and abroad indicated that something like a quarter of the accidents

were caused by those who suffered from them, a quarter by their fellow workers, and a half by the conditions of the employment. But no small part of the half attributed to the workers should have been looked upon as practically unavoidable. It is not in human nature never to relax attention, never to lapse from the strictest carefulness, even when a slip may mean injury to one's fellows or to one's self. A closer knowledge and attention will show that it is practicable to reduce accident rates; it has been done to a notable degree in some establishments; but it was true, and it still is true, that the greater number of industrial accidents cannot be charged to any faults of the injured.

8. *Consequences of accidents.*—The grave consequences of all these accidents and injuries come easily to the mind. It is a great and permanent loss to the nation and the nation's wealth, if some tens of thousands of capable producers are destroyed each year, a loss of many millions of dollars, tho one may count only immediate effects and only material wealth. But the immediate loss from non-fatal injuries is even greater. A capable employer has estimated that in his factory accidents, slight and serious together, cost his business \$5.00 each, in the monetary disturbance of work and in the delay and cost of filling the place of the injured. To this must be added a proper sum for expenses of treatment and support and for the loss to the injured workman and his family.



Clearly 3,000,000 non-fatal injuries a year in this country mean a great immediate material loss.

But the greatest losses are not material and immediate. Above and beyond all material losses, are the greatest losses of all, not to be measured by the millions they cost, not to be spoken of in terms of dollars, the losses in broken families and in saddened lives and at times in characters of children, weakened by lack of care—producers all, to be sure, but more than that also.

9. *Failure of employers' liability.*—From time to time governments have undertaken, or professed, to do something for the sufferers thru industrial accidents by holding employers to some measure of pecuniary liability for personal injuries received in their service.

But in practical results, the laws of employers' liability meant that employers were very often not liable. They paid for employers' liability insurance; and the insurance companies, with their great advantages under the law, their able legal staffs and their vast resources, brought it about that but one injured employe in five had any compensation for his sufferings, and he ordinarily had but little. Moreover, but a small part of what employers paid, usually in the form of insurance premiums, was received by their employes.

10. *Theory of workmen's compensation.*—The economic and legal theory of workmen's compensation

is very simple. It is that the costs of injuries to workers in an industry are a part of the expenses of the business, as are the costs of injuries to the machines with which they work, or the wages of the workers or the costs of the fuel for the engines. Employers, therefore, must pay for injuries to their employes, as they pay for other breakage, and may count their costs in fixing the prices at which they offer their products or services to consumers.

It is also intended that the obligation to pay for all injuries will make employers more careful to prevent accidents.

11. *Essential provisions in workmen's compensation laws.*—Altho the three score and ten compensation statutes, in widely scattered and widely diverse communities, naturally have their differences, yet there are three essentials of a workmen's compensation law. All ordinary questions of personal responsibility for accidents must be waived, and awards must be made for all but the most unusual injuries. The sums to be paid for the different injuries must be fixed in advance by law. And the law must be simple, prompt and inexpensive in its administration.

As reasonable supplements to these somewhat arbitrary provisions, the employer is released from any other liability for personal injuries to his employes, and the employe is often safeguarded by a requirement that a prompt and full realization of his limited awards be assured him, thru one provision and another.

12. *Scope of compensation laws.*—There is a strong tendency, both in the United States and in most foreign lands, to limit the compensation laws to such occupations as are popularly believed to be the more dangerous, such as manufacturing, mining, transportation and construction, and to leave out of account agriculture, domestic and personal service, and even mercantile pursuits, altho, as experience widens, the field of compensation is likely to be broadened.

In most jurisdictions only accidental injuries are compensated. But in some, notably in the United Kingdom and some other British territories, express provision is made for occupational diseases. Commonly, benefits are forfeited only by serious or wilful fault of the injured in bringing about the accident.

13. *Limited benefits.*—In the way of broad generalization and very rough averaging, it might be said that the total losses thru injuries are halved, the benefits covering one half and the sufferers enduring the other. But there are hundreds of modifications of this principle and departures from it. There are the most varied provisions for temporary, permanent, partial and total disabilities, for death, and for the several classes of dependents who may be left at death, besides usually a modest allowance for the burial of those fatally injured.

Nearly everywhere provisions are made for the curative treatment of the injured. And, as the common interest of employer and employe in the promptest and completest possible cure is recognized, these

provisions are made more generous in amounts or in duration, or in both.

14. *Assurance of benefits.*—Commonly, and in most American states, benefits awarded are given some special security, as prior lien against employers, and exemption from attachment or other similar process. American employers, and foreign ones too, commonly are required to insure their liabilities in some way, in the readily available commercial insurance companies, in specially constituted mutual associations, or in accident funds carried by the state.

15. *Simple administration.*—In half the jurisdictions, in most of the American ones, administration of the laws is simplified by committing it to special boards or commissions, which are free from the technicalities of the law courts and are both allowed and required to proceed as informally and summarily as may be consistent with prompt and substantial justice.

16. *Results of workmen's compensation.*—The apparent results of the world's compensation systems are several very great gains. Injuries are looked after much more promptly and carefully, so that their consequences must be much less serious. The better medical care has done a great deal to mitigate the sufferings of the injured and the cash benefits relieve their families and generally reduce the evil consequences of uncompensated injuries. Much the best of all are the measures for prevention of accidents. The American vigorous and most helpful movement

for "safety first" is unmistakably greatly stimulated by the compensation laws.

The costs for employers has been considerably greater than they had to carry under the old liability laws, varying widely, from a minor fraction of one per cent of pay-roll in such occupations as silk manufacturing to 10 per cent or more in some of the most dangerous forms of construction.

17. *Health insurance.*—The losses caused by sickness among working people are much greater than losses thru industrial accidents, being computed for the United States at no less than \$750,000,000 yearly. Yet comparatively little has been done by way of insurance or other provision against these losses. Fraternal and mutual associations, labor unions, employers' establishment funds, and private commercial insurance have done a little; but in the United States all of these together cover not much more than one per cent of the computed losses. Germany early recognized the gravity of her problem, and one year before her beginning with workmen's compensation she established a broad system of compulsory insurance against sickness. Since then nine other European countries have followed her example, Austria Hungary, Great Britain, Russia, and five smaller states. In the United States for some few years now there has been an earnest and growing agitation for the adoption of the policy here.

18. *Field and scope of health insurance.*—Generally the reach of health insurance is approximately as

broad as that of workmen's compensation; or rather broader in so far as it often includes others than wage-earning employes.

The sickness covered includes not only industrial diseases but general maladies also, and commonly the confinements of women. Indeed, Italy, not having gone as far as a general system of health insurance, has made special provisions for women lying in.

19. *Benefits under health insurance.*—In a general way the benefits under health insurance resemble those under workmen's compensation. Medical care is provided, with more or less generous allowances for medical supplies, trusses, crutches, and the like. Often also there is an award for the burial of those who die. With some important limitations, there are everywhere cash benefits, sometimes half of wages, as in Germany, sometimes a higher proportion, as in Norway, sometimes modest flat sums, as in Great Britain.

20. *Sources of funds.*—On the assumption that environment of employment, general conditions for which the state is responsible, and the personal conduct of the insured combine to produce disease, costs usually are apportioned to the employer, if there be one, the insured, and the public treasury. Perhaps most often employer and insured pay equally, while the state pays a smaller sum than either.

21. *Administration and its peculiar difficulties.*—Administration cannot be made as simple in health insurance as in workmen's compensation for accidents. Accordingly, much reliance is placed upon whatever

trade or fraternal associations there may be found already in existence and adaptable to the work in hand; or special bodies of the insured are organized specifically for the purpose of the insurance.

For one reason and another difficulties have developed, especially in the United Kingdom, in the selection of the medical staffs and the general organization of the medical care. It has proved very difficult to reconcile professional jealousies and the whims and prejudices of the sick with the necessary conditions of solvency in the funds and practical efficiency in their use.

22. *Results of health insurance.*—In Germany and other continental countries, where the systems have had time to show their natural results, it appears that much good has been accomplished by health insurance. Better medical attention has been enjoyed by great numbers of the sick. The massing of large funds has made possible many helpful measures for public loans to build institutions, hospitals, sanatoria, and the like. And a great deal has been done for the prevention of disease, by sanitation and the instruction of the people. But so far, for various reasons this form of social insurance makes comparatively slow headway in the world.

23. *Insurance against invalidity and old age.*—Quite distinct from accidental injuries and from disease is that invalidity, or incapacity for self-support, which may come in earlier years but comes with very sad frequency in old age. Figures far too gloomy

for comfortable reading have been prepared to show what great numbers of working people, in this age of strenuous demands upon workers, are early incapacitated for self-support and pass into a period of helpless and gloomy dependence. Here and there, within narrow fields, adequate remedy has been had, where great corporations and other wealthy employers have pensioned their aged and incapacitated employes.

Voluntary systems of saving under government supervision or administration have proved insufficient in Great Britain, as in Massachusetts and Wisconsin, if these states may be cited. Substantially the same have been the results in lands where government has undertaken to add to the sums which may be laid up by the poor, as in France, Belgium, and Italy.

24. *Compulsory old age insurance.*—By an act of 1889, not many years later than her laws for workmen's compensation and health insurance, Germany established a system of compulsory insurance against invalidity and old age, making it thus one of the three parts of her great plan of social insurance. In its most general aspects the third system is like the other two. Employers, beneficiaries, and the state contribute to funds which are administered by district associations under governmental supervision. France and a few smaller countries of Europe have somewhat similar systems.

25. *Old-age pensions.*—As distinguished from old-age insurance, to the support of which beneficiaries



contribute, old age pensions commonly are understood to be payments without previous contributions by the pensioners. Old age pensions of this character are provided by laws of France, the United Kingdom, Denmark, Belgium, Australia, New Zealand, Arizona, and Alaska. They are variously limited, and the payments usually are very small. For these reasons their beneficial results have not been marked. For us the recent adoption of this most radical policy in the United States has a peculiar interest whichever way it may result. It appears that the Arizona law is in a fair way to be finally adjudged unconstitutional.

26. *Insurance against unemployment.*—The sufferings of the working classes thru the involuntary idleness of their breadwinners are too well known to need emphasis. There are, however, extraordinary difficulties in devising even a moderately helpful method of insurance against unemployment. Many labor unions by their out-of-work benefits may be said to have provided a sort of insurance. And public grants in addition to such benefits, first given in the Belgian city of Ghent in 1901 and thereafter in many other European cities, mark the introduction of a true social insurance against unemployment.

Such voluntary insurance against unemployment never has developed widely enough to have an appreciable effect in reducing the evil against which it has been directed. Moreover, in the judgment of many, if not most publicists, it is dangerous in operation and

likely to do great harm at times. This fact does not prevent the state from direct action in the way of providing work in times of industrial depression.

27. *Compulsory insurance against unemployment.*—Compulsory social insurance against unemployment, after a brief and unsuccessful trial in the Swiss city of St. Gall, has come to a recent broader trial under the British National Insurance Act of 1911. It applies to some 2,500,000 employes in the mechanical trades. Employers, employes, and the state contribute the funds, which may be drawn upon to provide benefits of not more than seven shillings a week for a period of not more than fifteen weeks in any year. There are very elaborate conditions laid down for the prevention of frauds. The latest reports from labor sources in Great Britain are not favorable. These laws have often, it is thought, a pauperizing effect.

28. *General results and prospects of social insurance.*—It may be counted that the new results of social insurance have, in certain lines at least, been beneficial. There have been unexpected developments not to be welcomed, malingery, some weakening of self-reliance, an occasional handicap for an industry. But these do not appear to be of sufficient weight, on the whole, to balance the gains.

In any event, there is no prospect of social insurance being abandoned or even contracted, for the present. Its benefits seem too evident and too much to the advantage of the great body of the people. For these people, public policies will be changed more and

more, as the world grows more democratic. In some of its phases probably, it will prove to be truly, generally and permanently beneficial. Its democracy is a strong guarantee of its continuance, but more experience is needed in different countries under differing conditions, to determine with any certainty, the scope and manner of its best and wisest application.

#### REVIEW

- Why do wage earners take so little care to insure themselves?
- What are the benefits and evils of industrial insurance?
- Define workmen's compensation and outline the main provisions of compensation laws.
- What are the objections, if any, to Employers' Liability Acts?
- What have been the results of workmen's compensation laws?
- What are the main objections to old age insurance? To insurance against unemployment?

## CHAPTER XI

### IMMIGRATION

1. *Necessity of a resourceful population.*—Business is vitally interested in population. If the people are not a resourceful, energetic, sensible and politically-minded population, the social, economic and political growth of any nation is handicapped in comparison with that of other countries where the population has these characteristics. Many a country which has had the right kind of population, has been able to outstrip naturally far richer rivals that have been cursed with a low-grade population. Think of New England under the Indians and the Puritans, of Egypt since the English control.

2. *Immigration especially important to business men in the United States.*—This question of the character of population is of paramount importance in the United States, because of our tremendous immigration. A problem so vitally connected with American life, involving, as it does, important economic, religious, social and political questions of every kind, demands a definite, regulative policy, for our future citizenship will consist largely of the foreign-born that are now coming to our shores.

3. *Extent of immigration.*—During the last twenty

years, especially during the last decade, there has been a very decided increase in immigration. For some years before the outbreak of the present European war, the annual average was some 1,250,000 or more. On the other hand, some 30 to 40 per cent of the immigrants finally return to make their permanent home in Europe. The fact is significant, too, that during times of depression, relatively fewer enter this country and relatively more leave it. Nevertheless, the percentage of increase among the foreign-born in the United States is rising more rapidly than that of the native-born.

During the hard times that follow a crisis there is less unemployment than there would be if it were not so easy for people to return to Europe, and if news did not so readily reach Europe that it would be unwise to come to this country seeking employment. On the other hand, the ease of communication has more than one evil effect. First, it encourages the immigration of the so-called "birds of passage," who come to the United States merely to work temporarily at whatever wages they can secure, and who consequently are willing and able to seize the least opportunity for advancement, often to the detriment of those who have come here with the intention of making this country their permanent home. Second; in prosperous times so many foreign laborers take advantage of the cheap ocean passage and flock to this country that wages necessarily remain relatively low and the condition of the permanent laboring

class fails to improve as it should. The fact that the law of diminishing returns holds good in regard to population, the economic value of each individual decreasing as numbers increase, capital remaining unchanged, renders the immigration problem especially serious.

4. *Changed racial character of immigrants important.*—That the majority of our immigrants come today not of northern and western European stock, as formerly, but from southern and eastern Europe, is a familiar fact. The aliens that enter the United States represent some forty odd races. Race prejudice influences us to reason sometimes falsely that we ought strongly to oppose the immigration of so many nationalities, especially since they represent customs decidedly different from our own. We forget, when we take this attitude, that this difference, in itself, implies neither inferiority nor superiority. Some of these races will, of course, prove to be of greater economic value than others; some will become assimilated quickly, others slowly, and still others perhaps not at all.

The United States (as well as Canada, Australia and New Zealand) is today called upon to deal with Asiatic immigration and is therefore seriously questioning whether it is wise to expect many distinctly different races to conform to the ideals, political, social and economic, of this country. If these foreigners are really to become American, time must be allowed for a thoro readjustment. The large num-

bers from the Orient and from southern and eastern Europe constitute a problem that is extremely difficult, and one the solution of which no man can yet foresee.

5. *Immigrant races flock together.*—It is significant from the racial standpoint that there is a natural tendency, on account of likeness in language and customs, for members of the same races to live together according to nationality and, following the same principles, to work in national groups in certain industries. For example, of the total Slovak immigration to the United States in 1914, Pennsylvania attracted 44 per cent, as well as 13 per cent of the Ruthenian, 23 per cent of the Lithuanian, and nearly 20 per cent of the Italian. From 1900 to 1910, the native-born population of Pennsylvania increased only 16.9 per cent, while the foreign-born increased 46.4 per cent. If such a rate of increase among the foreigners continues steadily, it will be only a few years before the racial composition of this state will be entirely changed. A similar process is going on in all our large industrial states.

6. *Occupation and distribution important factors.*—Closely allied with the question of the number of immigrants and their racial make-up, is that of occupation and distribution. A large number of the earlier immigrants, being skilled laborers, went into the principal trades and industries wherever their services were most needed; others, agriculturists, purchased the farms of the thrifty Americans of the East, who

went to the West and Northwest, and became settlers on the frontier. Recently, a large proportion of our immigrants have gone to the great industrial centers of the East. During the fiscal year of 1914, for example, 344,668—over one-quarter of the total immigration in that year—settled in New York state. In that same year (1914), 65 per cent of the total number of immigrants took up their residence in five states—New York, Massachusetts, New Jersey, Illinois and Pennsylvania—altho these same states contained only 30.7 per cent of the population of the entire country.

The foreign population is not at all evenly distributed. In the years 1890–1910, the foreign population had increased by only 223,731, while during that same period the increase in the number of foreigners in our cities was about 4,000,000. In New York, Pennsylvania, Massachusetts and Illinois, there were, in 1910, 6,454,944 or 47 per cent of the 13,515,886, all the foreign-born then resident in the United States—clear proof that most of our immigrants add to our already overcrowded city life and do not, despite all our efforts, reach the farms.

7. *Weight of immigration borne by the industrial centers.*—Our great industrial states and cities bear the principal weight of the present immigration. Of those who enter nearly 70 per cent are males, about 80 per cent are between the ages of 14 and 44, and of these over 50 per cent are single, unskilled laborers. In these great industrial centers, the newly arrived immigrants compete strongly with those that came



before and with the American laborers. They come in contact with new conditions of city life, and have to adjust themselves to the lively industrialism of American activity. On the other hand, American industrial conditions have to undergo readjustment as a result of this enormous influx of foreign life. It is a tremendous business as well as social problem. In an article on the city's responsibility to the immigrant, in the June issue of the *Immigrants in American Review*, it is stated that:

We have entered upon the period in which city men are dominating the policy of the nation.

The problem of the city is the problem of a revolution—a revolution brought about by an industrial evolution, with an immigrant invasion.

These immigrant races form colonies, like an invading army, taking section after section of our cities exclusively for themselves, building business on racial lines, come in contact with practically only the unsuccessful class of Americans. In these districts—cities within a city—many foreign customs are observed, and the traditions and prejudices of centuries are perpetuated.

In the face of such facts it is clear that one of the most important steps in our American life today is the realization that the assimilation and Americanization of the immigrant is a municipal responsibility to which the state and the National Government owe support and guidance.

8. *Later immigrant shows a lack of permanent interest.*—A large proportion of our present-day immigrants are single and unattached men who in many cases apparently look on this country only as a place where they can make money in a short time with which

to establish themselves in their native land. It is estimated that approximately 25 to 30 per cent eventually return home to stay. These bird-of-passage workers always move where there is the slightest increase in wages, and invariably compete for a job regardless of the country's interests. Moreover, not thinking in terms of years of labor or of the interests of their children, they do not object seriously to bad working conditions.

9. *The immigrant and industrial processes.*—Our immigrants often exert a powerful detrimental influence upon American industrial and social life—owing especially to the prevalence of illiteracy, lack of technical training and of a knowledge of English, as well as poverty, low standards of living and often of morals, and often to an absence of any permanent interest in the welfare of this country. Since the economic productiveness of the immigrant depends largely upon his manual skill, and since that is often deficient, one result of the present immigration is the more widespread use of automatic machinery and mechanical processes. The Hebrews that come to this country have largely been city dwellers abroad; therefore many of them, when they arrive here, naturally settle in the cities, and enter the manufacturing industries. Other races—the Slavs from Austria-Hungary, southern Russia and Poland, the Italians from both northern and southern Italy—come from agricultural districts, but since they desire immediate employment here that will soon bring returns, they also enter the

manufacturing and mining industries in the great industrial centers. Such workers have lessened the demand for skilled laborers and increased the need for more supervision and a more general use of certain kinds of machinery. With these changes has come an extremely severe competition in industrial life.

10. *Immigrant's tendency to lower the standard of living.*—It has often been asserted that the newly arrived immigrants, generally speaking, do only unskilled labor and, as it is sometimes expressed, simply force skilled laborers into positions of superintendence where they are paid better wages. While it is true that with the arrival of great numbers of ignorant, unskilled immigrants there is a demand for men who can superintend their work, there is not room at the top for all the workmen that are crowded out by these newcomers. Many are pushed to the wall and forced to accept poor positions at low wages as a direct result of this invasion of foreign laborers. Often a strong race prejudice has led workmen to quit rather than work side by side with foreigners whose language they could not understand, or whom they found personally repulsive. These conditions have not only tended strongly toward preventing an improvement in the wage earners' standard of living in this country, but they have brought about, in many instances, a positive lowering of that standard, greatly to the detriment of our civilization.

11. *Effect on growth of population.*—Many of the

best authorities are of the opinion that the population of the United States would have been equally as great as it is now had there been no immigration whatever during the last thirty years. They think also that the population of some of the countries, from which hundreds of thousands or even millions of immigrants have come, has not been lessened by that emigration. The principle upon which this conclusion is based, is that the influence of economic conditions upon the birth rate is very marked, and that increase of the immigrant population has so changed the economic and social status of the native-born Americans that the birth rate has lessened enough to more than offset the number of arriving immigrants. The effect, then, has been, not an increase in population, but the substitution, to a very noteworthy extent, for what would have been a native-born American population, of the untrained, and as yet unadapted races of southern and eastern Europe. The controverted question is one that, of course, does not admit of absolute proof on either side, but the weight of authority favors the conclusion that our enormous immigration of the last thirty years has not increased the population of the United States but has merely brought about this substitution.

12. *Restriction necessary to maintain an American standard of living.*—To establish firmly an American standard of work and living, to guarantee a proper distribution of the benefits of our marvelous natural resources and our wonderful industrial progress, and

at the same time to maintain the spirit of enterprise and the stimulation to industrial progress and efficiency, it seems necessary to impose some limitations upon the number of immigrants who are rapidly entering the country. All that is essential is to limit temporarily the number of incoming aliens so that the foreign workmen already in the country may be industrially assimilated and may be educated to the point where they will demand proper standards of living and will be constrained by the economic aspirations of the native American.

13. *Distribution of wealth a real indication of prosperity.*—It is clearly apparent that a restriction of immigration would be in reality an arbitrary curtailment of the increase in the existing labor supply, and might be attended by a temporary check in the rapidity of the remarkable industrial expansion that has been characteristic of recent years, but the measure of the economic welfare of the citizens does not consist chiefly of the number of tons of coal mined or the tons of pig-iron produced, or the number of yards of printed cloth manufactured. The real indication of material prosperity is to be found in the extent to which the masses of the population, largely wage earners, share in the industrial output, which is partly attributable to their labors; and unless there is a limitation of cheap foreign labor, it is perfectly clear that the American wage earner cannot hope to participate properly in the results of our industrial progress. Moreover, the higher wages and better

standards of living that would be the logical outcome of restriction, would attract skilled and highly trained workmen from northern and western Europe who, under present conditions, have ceased to emigrate to the United States. The return of this more efficient class of wage earners would favor the promotion of industries for the production of more finished and special commodities that are now sold by foreign manufacturers in our own and the world markets.

14. *Labor unions opposed to immigration.*—Partly on the ground of competition, the labor unions as a body have been decidedly opposed to immigration on both political and economic grounds. Samuel Gompers, President of the American Federation of Labor, in a letter to President Wilson, advocating the Dillingham-Burnett Immigration Bill of 1915, which included the literacy test, said:

Those who advocate the enactment of the immigration bills are persuaded that the needs of the people of our country require some means to protect them, their work and their future against wholesale immigration—immigration planned on a great scale to depress the condition of the workers here by large numbers who may and do supplant them and take from them their opportunities to earn a livelihood. There must be some provision to meet a serious and menacing situation jeopardizing American standards of life and American concepts of freedom.

The recent United States Industrial Relations Committee, which studied this question stated; “that the great mass of non-English-speaking workers, who form about one-half of the labor force in the basic in-

dustries, has done much to prevent the development of better relations between employers and employes.

15. *Recent immigrants coming to recognize the need for restriction.*—Frank Julian Warne, in his book, “The Immigrant Invasion,” remarks that even the recent immigrants “are coming to a recognition of the disastrous effects uncontrolled immigration produces in limiting the opportunity in America for a decent standard of living and a fair wage.” He quotes part of a resolution adopted by the general executive board of the United Garment Workers of America, consisting, with one exception, of Russian Jews. It was passed at the close of an unsuccessful strike in New York, in 1915:

Resolved: That the unprecedented movement of the very poor to America from Europe in the last three years has resulted in wholly changing the previous social, political and economic aspects of the immigration question. The enormous accessions to the ranks of our competing wage workers, being to a great extent unemployed, or only partly employed at uncertain wages, are lowering the standard of living among the masses of the working people of this country, without giving promise to uplift the great body of immigrants themselves.

16. *The immigrant an important financial factor.*—From the financial point of view the immigrant is an important factor. The entrance of a million workers, most of whom go into machine industry in a limited number of states, necessitates a rapid increase in business and capital in order to put them effectively at remunerative work. Without such an increase in cap-

ital, the only possible result is unemployment, low wages and a general lowering of standards. Let us not judge by war conditions. The conditions of 1913-14 are likely to be repeated in 1918-19.

17. *Vast natural resources alone are not enough.*— It is nonsense to speak of vast natural resources as an argument for the handling of an unlimited immigration without strict regulation.

We are now rapidly entering into what may be called the manufacturing stage, which depends upon outside markets for the disposal of its surplus goods. No longer do we need immigration for the exploitative use of our natural resources. No longer have we the vast expanses of new land as a safety valve for out-pushing population. Professor Fairchild makes the following estimates of the number of square miles of territory for each immigrant coming into the country:

Year	Square Miles of Territory
1800.....	8.278
1820.....	20.927
1830.....	14.355
1860.....	.1205
1880.....	.1076
1900.....	.824
1910.....	.347

We are now rapidly passing into the class of the large manufacturing countries of Europe, such as Germany and England.

18. *Large amount of capital needed to employ*



*immigrants.*—For all industry in the United States in 1909, the capital employed was \$18,428,270,000, while the persons engaged numbered 7,678,578, the ratio being approximately one unit of labor to each \$2,400 of capital invested. In the clothing industry, the ratio was about 1 to \$1,000; slaughtering and meat-packing, 1 to \$3,500; in the New England states, \$2,000 worth of capital was needed per unit of labor; in the Middle Atlantic states, 1 to \$2,500; east North Central, 1 to \$2,500; in New York City, 1 to \$2,000; Pittsburgh, 1 to \$4,000; Chicago, 1 to \$3,000; Lawrence, Massachusetts, 1 to \$2,500.

It is probable that a minimum of at least \$2,500 is needed for each worker. This gives some idea of the financial demands necessitated by immigration in order effectively to take care of the new population brought in. In addition, of course, nearly a million native-born must be looked after. The demand for new capital to employ effectively these additional workers probably runs to two or three billion dollars a year.

19. *Immigration without adequate capital means non-adjustment.*—Many of the immigrants, peddlers, shoe-blackers, etc., work their way out with little capital expenditure and thus probably reduce the above figures. On the whole, however, the figures give some tangible idea of the financial problem involved. If capital investment does not keep up to the needs of new workers, the result can only be mal-adjustment. The United States Immigration Com-

mission, after exhaustive study, showed an oversupply of labor in basic industries. During the two years 1913-14, when unemployment conditions in our large cities were acute and business seemed to be at a standstill, over one million immigrants poured in. Immigration under such circumstances can only be productive of, and if continued for any length of time, can only work havoc with our standards of living.

20. *Immigrants to bring money.*—In other ways the immigrants are of financial importance. Some money is brought in with them. Sir George Paish in his report on the Trade Credit Balance of the United States to the National Monetary Commission, estimated the amount at \$50,000,000 a year, which would seem to be a fair statement. On the other hand, a large amount of money is yearly sent out of the country in various forms. The Immigration Commission estimated the amount sent out in 1907 at \$275,000,000. It is safe to say that from \$200,000,000 to \$300,000,000 a year is sent from this country by immigrants here.

21. *Natural method of raising standards.*—It would seem as if the problem of holding up standards under the impact of such an immigration as has been described, is almost an impossibility. The struggle for existence is stronger than law or standards. The natural method of raising standards is to limit competition. Could any better example be found than the way in which, during the last two years (1915-

16), industry has obviated the prevalence of unemployment? Wages have been increased and hours of labor reduced, often voluntarily. Under normal circumstances, such a situation would have only resulted in a large increase in numbers which would tend thru competition to prevent these beneficial results.

22. *Vast population to draw on.*—It is well to note for a moment the vast populations upon which our immigration has lately been drawing. Russia, Austria-Hungary, Italy, Greece, Roumania, Bulgaria, Servia, and Turkey alone have a combined population of more than 291,000,000 people. This vast reservoir of people has so far hardly been tapped by the large immigration streams already flowing into this country.

23. *Restriction will not deprive ambitious people of a chance in life.*—Restriction of immigration will not deprive people in other lands of an opportunity to make new starts in new countries. British North America, with its vast natural resources, is seeking new citizens. In a few years, without doubt, Canada will equal the United States as a field for re-starting life. In South America, an unlimited opportunity for probably years to come is offered to the people of Europe who wish to strike out for themselves. In many ways South America thru climate, thru race, thru language, will offer better opportunities for emigrants from southern and eastern Europe than the United States. Any restriction on the part of this

country now will probably have the effect of widening the field of emigration to those newer countries which are in the position that the United States was some 75 or 100 years ago.

For these reasons there is cause for satisfaction in the passage of the Dillingham-Burnett law in 1917. Tho there may be valid grounds for objection to the literary test as the best method of restriction, it is still a fact that this test will be most effective on the "birds of passage," who from the economic standpoint are our least desirable immigrants and those who do most to lower the standard of living of our wage-earners.

24. *Americanization of immigrants.*—For business as well as for social and political reasons, it is extremely desirable that immigrants who are to make their permanent home here become Americans in mind and heart as soon as possible.

The greatest evils of immigration are found in our great mining and industrial centers. Movements to secure a better distribution of the immigration, especially as farmers upon the land, should be encouraged. The majority of those coming from Italy and Austria-Hungary have been farmers. They should be encouraged to become farmers here.

Again, they need to know the English language, to understand American political institutions, to learn American customs of living and working that they may become an integral part of our nation. Efforts are being made by private citizens, by volun-

tary associations, by governmental action, thru schools and bureaus, to accomplish these results. Now that the influx of the overwhelming numbers of the immigrants is somewhat checked, the efforts toward their Americanization should be encouraged and strengthened.

#### REVIEW

How far has the restriction of immigration during the present war been responsible for the rapid rise in wages?

If immigration should return to normal at the end of the war, what effect would that have upon the American standard of living?

If capital asks for protection against low priced foreign goods, should labor here be protected against low-priced labor from abroad?

In what ways would a wider distribution of immigration, over the North and South American continents, be of value to the American business man?

Why do we adopt an exclusion policy in regard to Chinese, Japanese and Hindus, and not as regards Turks, Syrians, Persians, Cossacks and negroes?

Why do we openly pass an exclusion law against the Chinese and not favor one against the Japanese?

## CHAPTER XII

### PUBLIC SERVICE CORPORATIONS

1. *Public service corporations need special recognition.*—In the business field, there is a group of public service activities, which, from their peculiar relation to the public, require special recognition and consideration on the part of the government. First are the transportation interests including steam railroads, ships and boats, street and interurban electric railways and other common carriers both of passengers and property. Second, and of nearly equal importance, are the communication utilities such as the telegraph and telephone; and third come the light, heat, power and sanitation utilities, including gas, electricity, water and drainage. Closely allied with these are such other utilities as docks, warehouses, grain elevators and cold-storage plants.

2. *Recent growth of public service corporations.*—Relatively speaking, the public service industries are still young. A large part of the national wealth is represented by these public service industries and their activities touch directly or indirectly, not only the pocketbooks, but the comforts and convenience of nearly every person in the United States.

3. *Why different from other industries.*—In a number of ways, the relationship between these industries and the public is different but more intimate than that of other lines of business. In general, these industries are monopolies, based on legal sanction or natural conditions. Monopolies may be classified as legal monopolies, natural monopolies and capitalistic monopolies. At the present time, we have two general kinds of legal monopolies. Our patent system gives a monopoly, so too, the copyright system, which applies to books and printing. We have also public franchises such as the privileges granted to urban railroads for the use of certain streets. These rights are generally granted to a single corporation. Many of our local utilities are of such a character.

4. *Meaning of natural monopoly.*—By natural monopoly, we ordinarily mean a business enterprise of such a nature that owing to the mere economic facts in the case, there is of necessity a monopoly. It is something that is not at all a matter of law altho it may be favored with a law—it is simply the outcome of the nature of the business itself. Ordinarily the chief characteristic of a natural monopoly is that it is “an industry of increasing returns” as compared with industries of “constant returns” or industries of “diminishing returns.” For a certain expenditure of capital and labor upon an acre of ground, the return will be a certain number of bushels of grain. If you were to double the amount of labor and capital you would increase the amount of your

product, but it probably would not increase proportionately. If you double again you increase your product, but in a still less proportion. An industry of decreasing returns means that as you increase your expenditure of labor and capital you get a less and less proportionate return.

On the other hand, if you take the case of ordinary manufacturers or merchants for every increased increment of capital and labor added you get substantially a proportionate return. Then there is a third class of industries—industries of increasing returns in which for the addition of a certain increment of capital and labor you get what is more than a proportionate return. Natural monopolies are of that kind. Take the case of a railroad. After it is built and has a certain capacity of production, it can carry a certain amount of freight and a fixed number of passengers. If you wish to double the carrying capacity of the road, you do not need to double the investment of capital. In all probability you would need only to add the necessary number of cars and locomotives and (a few) more employes. To increase freight by 25 per cent, you put on extra cars and locomotives. This principle of natural monopoly—increasing returns—applies not only to railroads, but also to street railways, to gas and electric light companies, and water supply companies.

5. *No reasonable competition between railroads in same territory.*—There can be no fair, reasonable competition with the railroad that meets the needs of a



certain district. A parallel line is largely a sheer waste of capital. If the first railroad cannot quite handle the traffic, increase its capacity. If a parallel road is built the only possible way for them to get along together is to combine. If they attempt to compete, it means ruin for both, for neither can afford to stop business nor cut rates in order to increase traffic beyond what would enable it to continue permanently in business.

6. *Public service corporations tend inevitably toward monopoly.*—From the mere fact that the railroad is an industry of this type, it inevitably tends toward monopoly. The same principle holds with street railways. Service is needed on certain streets. One line can occupy the street satisfactorily, but another one cannot be built, without great disadvantage to all concerned. There is no room for two different railroads on one street. Moreover, two are unnecessary. It is an industry of increasing returns. If added service is needed, do not put in another railroad but put in additional facilities for the existing line. A natural monopoly may be also an industry of such a nature that it will be given a franchise and in that way become a legal, as well as a natural monopoly.

The development of water power within the last few years will add another large group of industries to the public utilities list. The utilization of water-wheel power increased from 438,472 horse power in 1902 to 2,471,081 in 1912. Many charges have been made that in a good many cases, particularly in southern and western states, companies have been

organized to buy up and control all the water power sites so that anybody wishing to use water power has to rent that power from these companies who have a monopoly. Even tho their rates for water power are lower than the cost of steam power, many of these companies, it is claimed, have enough control to prevent others from getting water power. In this way they are able to restrict development. This again is a type of natural monopoly and it raises the issue whether or not the governments should not own all of these water powers. At least, direct government supervision under carefully drawn franchise agreements should be made before these water-power rights are allowed to go into private hands. Otherwise, there will result the conditions prevalent in many of our cities, where a long struggle has been necessary to get back some of the rights granted to public utility companies in former days.

7. *Characteristics of public service enterprises.*— Since these industries from their very nature possess inherent monopolistic characteristics, their relation to the public is very important. In general we may note four characteristics in all these industries.

The public is peculiarly dependent upon them for its comfort and its progress. Upon good water depends, in large part, the health of a community. Upon quick and reasonable transportation depends business, and just as important, the happiness of the people. Especially is comfort dependent upon the municipal railway system and the ability of the people

to extend their range for homes over a wide area. The rapidity of present-day American business depends largely on the telegraph and telephone. Upon good service in gas and electricity much of our city life thrives. In a hundred and one ways, modern life depends upon the service rendered by these industries.

8. *Substitution impossible*.—Substitution for their service and products is almost impossible. True, the jitney bus has had its day of usefulness but as a permanent substitute for the mass of people, it is of little consequence. Motor trucks took care of the transport of provisions to American troops in Mexico, but at a heavy cost and only as a temporary matter. Permanent occupation could be effected with success only in one way and that is to seize and use the railway. Kerosene oil might take the place of gas and electricity, but is unthinkable as a substitute in the modern city with its flats and apartment houses. The public simply must use these utilities or suffer greatly.

9. *Competition impossible*.—Competition in these industries, is a practical impossibility. The value and the propriety of monopoly conditions is recognized in the public service corporations. The nature of the service rendered by them gives them rate-making powers that clearly resemble the taxing powers of the government. Legally, they are distinguished from ordinary private business as they are under recognized legal obligation to provide satisfactory

service, to refrain from unjust discrimination and to make their charges for service reasonable and just. Such restrictions are not generally placed on manufacturing enterprises, department stores or other such lines of business.

10. *Assisted by the government in a peculiar way.*—The fact that the government has assisted these industries in many ways in a peculiar manner thru giving them the right of eminent domain, money and land grants, and liberal franchises, including the use of city streets, undoubtedly gives to the public a moral and legal right to prevent the abuse of monopoly power, or any activities inimical to the public good. The tremendous influence of these corporations on the standard of living, their ability to secure the unearned increment value coming from rapid increase in population make needful a degree of public oversight. They must be effective instruments for the service of the individual citizen and for the development of the country. Their regulation is a necessity. The recognition and expansion of the principle of control of public utilities constitutes one of the most striking features of American political life in recent years.

11. *Bad practices in the past.*—In the early development of public utility industries, this principle was not recognized; there was little or no safeguarding of the public's welfare. Their monopoly characteristics were not so clearly recognized. The public had had no experience with them. The future values of franchises granted were not clearly recognized and

often they were bartered for long periods of time or in perpetuity with little or no return. Millions of acres of land of untold value were given in grants to the railroads. City privileges essential to the future growth of a municipality were given to private companies with little thought.

12. *Public service character not recognized.*—Much of the present difficulty in the proper control of public utilities comes from this lack of foresight. The public strives to win back these essentials so freely given in the past simply because the public service character of these corporations was not clearly recognized.

Mr. Delos F. Wilcox says that:

Expressions such as traction war, gas fight, telephone controversies, and electric light dispute are familiar to everyone. In the picturesque language of the newspapers and of the street, the public service corporations have long been described as public enemies, and the attitude of belligerency toward them has become chronic in many, if not in most American cities.

Both sides are coming into a more reasonable state of mind. The principle of regulation is firmly established.

13. *Systematic regulation a recent matter.*—Systematic regulation of public utilities, however, is a comparatively recent matter. It is true, of course, that in some states railroad commissions have existed for forty years or more. The Massachusetts Gas and Electric Commission is thirty years old. The Inter-

state Commerce Commission Act, the forerunner of Federal regulation, was passed in 1887. In 1906, the Interstate Commerce Law was amended to give the commission mandatory, instead of merely advisory powers with respect to rates to be charged in the future. In 1907, Wisconsin and New York enacted their comprehensive public utility laws. The number of states having such commissions is now thirty-one. The District of Columbia, Hawaii and the Philippine Islands, each has a commission. With the exception of Delaware and Utah, all the states now have either railroad commissions or public utility commissions or both.

14. *Powers of regulating commissions.*—In almost all cases, the commissions can prescribe rates to be charged. They may investigate the service rendered by the utilities, and if they find it inadequate, they may direct that new standards be established. They control the accounting practices. The companies are obliged to make regular and special reports to the commissions at times fixed either by law or by rules of the commissions. Whenever such companies wish to issue new stocks or bonds, they must first get the commission's consent. In these and other ways, the public service commissions enter intimately into the affairs of public utility companies. They act either on the complaint of a dissatisfied consumer or on that of a municipality or an association of some kind, or they may make their own complaints and prosecute on their own initiative.

15. *Commissioners, how chosen.*—The commissioners are either appointed or elected, the prevailing method being to have them appointed by the governor of a state, subject to confirmation by the Senate. In a number of states, however, the members of the commissions are chosen directly by the people at general or special elections. The terms of office of the commissioners are usually long enough to enable them to become proficient in their work.

16. *Commissioners must possess high qualifications.*—The duties of commissioners call for a high degree of ability. In fact, it is generally admitted that the value of any regulating law depends primarily on the ability and integrity of the commission chosen to administer it. It is readily seen, however, that the administration of these laws may be closely linked with politics, and sometimes men whose chief qualification is their loyalty to a political party machine may become commissioners.

17. *Status of regulating bodies.*—The government generally classifies these commissions as administrative agencies, possessing neither judicial nor legislative powers. In performing their duties, however, they must satisfy the courts both as to their compliance with the authority granted them by the legislature and as to their observance of constitutional guarantees. Sometimes the legislatures have not given the commissions all the powers that are needed to make regulation entirely efficient. More frequently, however, the commissions are hindered by

the courts' narrow interpretation of their powers. This is especially the case when it is question of determining the earnings to which a public utility enterprise is entitled. In this important function the courts have practically taken the place of the commissions.

18. *State versus local regulation.*—The regulation of public utilities by the state rather than by the municipality has been the popular program during the last few years, tho many examples of good results and progress have been accomplished under local municipal rule. Those arguing for municipal regulation as against state regulation, claim that the latter is favored by the public service corporations who wish to write the laws and use their influence in getting appointees of the right mind; that state regulation has not done so well as municipal regulation; and that it has not eliminated the public utility from municipal politics. Perhaps the strongest argument, and one that has a great deal of good sense in it, is that state regulation has taken away from the citizens of a municipality their immediate interest in these questions and has had a disastrous effect on the quality of municipal citizenship. Cities, for their right development, should have a large amount of home rule and we must be careful not to break down these strong, local interests.

19. *Advantages of state regulation.*—On the other hand, certain outstanding advantages come from state regulation. The very form of public utility manage-



ment, now changing so rapidly and in the direction of concentration, makes state control almost a necessity. The tendency toward centralization in ownership in the electric field of operation which has been greatly promoted by the development of the hydro-electric and central power stations, which furnish power to numerous plants in certain sections thruout various parts of the country, is an illustration. These corporations are state-wide, powerful financial bodies and are the most important to regulate. In New Jersey, for example, if each local unit were left to regulate as it pleased the activities of the New Jersey Public Service Corporation, rank confusion would be the result, the cost would be tremendous, and it is doubtful if, on the whole, any good results would accrue. A corporation, for many good, justifiable and valid reasons, would rather deal with a strong central state commission than with such a riot of regulation. In fact, few cities can afford to maintain a competent regulating body. A similar controversy in many ways is found in the clash between the state and the Federal governments. Here, again, it is growing more evident that centralization of management and capital, with the economic elimination of states lines, is breaking down more and more local state regulation with its forty-eight separate regulating agencies; a cumbersome, expensive and hampering method of operation.

20. *Optional home rule.*—The principle of optional home rule is one that should be given much

consideration. Large cities, like New York, Chicago and Philadelphia, are in many ways in a better position to handle these questions than a state commission. Various items of a regulating program may be left to the city; others can best be handled by the state. A local municipality, especially if large, should have much to say in the granting of franchises. It may well be given much power over rates and service. The control of securities and the supervision of accounts can perhaps best be handled by the state. For a time, at least, our regulating program should be elastic and adaptable, and we should be most careful not to break down local interest and citizenship in a quick scramble for state regulation. On the whole, however, it would seem as if present tendencies in the organization of public service corporations are making necessary the use of wider governmental units of regulation.

21. *Achievements of regulating bodies.*—The most notable achievements so far have been the elimination of unjust discriminations and the bettering of service conditions. At the same time, in most of the industries, rates have had a downward tendency. The Interstate Commerce Commission has practically stamped out the discriminating practices that prevailed up to a few years ago. State commissions found widespread discriminations in the fields of several of the public utilities. In almost every instance, the public utilities have cooperated with the commissions in putting an end to these practices.

22. *Powers of commissions.*—Most laws empower the commissions to prescribe standards of service and they have done so for each of the utility industries. They have also employed investigators to supervise the application of these standards thruout the territory, to the great benefit of the public generally. Except, perhaps, in the electric traction field, where there is a more or less traditional rate of charge, the work has not been seriously interfered with by partisan politics creeping into the ranks of the commissioners. Furthermore, the courts have seldom interfered with commission regulations pertaining to service.

23. *Net income and distribution.*—The regulation of rates involves two important points: First, the total net income which the utilities shall be allowed to earn in each case; second, the distribution of the net income among the several classes of consumers in such a way that all may share equitably in the total cost of the service. The latter feature of rate regulation is a matter of discrimination. The public seems to feel that it is being duly protected from unjust discrimination thru the commission's supervision of rate schedules.

The first feature of rate regulation—the determination of the aggregate net income—is in a hopeless state of confusion. From an economic standpoint, such net income must be sufficient to attract new capital into the industries. The economist, therefore, is interested, not so much in the manner of

determining this amount as in the amount itself. The courts, however, have interposed, for the guidance of the commissions, a legal fiction to the effect that rates may not be reduced below a point that will afford a fair return on the present value of the properties employed in the service. This has produced a conflict between the commissions and the courts, the effect of which has been to embarrass seriously the commissions and to create in the minds of the public a distrust of the entire regulation program.

24. *Valuation of properties.*—The valuation of steam railroads, now progressing under the direction of the Interstate Commerce Commission, is crystallizing the opinions of commissioners on the subject of value. They feel that land, machinery, apparatus and equipment used for public utility purposes should be valued differently from similar properties used in competitive enterprises of a private nature. They take the position that the owners of public utility enterprises should be protected from rate reductions only to the extent that they themselves have made sacrifices in the construction of their plants and in the development of their business. Consequently, they say that when a company has been so prosperous as to earn and set aside a substantial surplus in addition to the payment of operating expenses, depreciation and reasonable dividends, this surplus should not be used as a basis of increasing the net income to be allowed the enterprise in the future. This principle

also, they say, applies equally to the increase in land values resulting from the growth of population and to land grants and other donations made by public authorities and private individuals for the purpose of hastening the establishment of public utilities.

The courts, on the other hand, have decided that the constitutions, both state and Federal, forbid the state to take private property for public use without a just compensation, and that when a regulating commission reduces rates to a point which will not permit a public utility company to pay a fair return for interest and profit on the present value of its property, this constitutional protection is being violated. The courts, therefore, require that in rate regulation the present value of the properties be ascertained by the commissions, and that the net income allowed be sufficient to pay a fair return on such value. But in this connection, the courts have not made clear exactly what they mean by value.

25. *Points in dispute.*—By this controversy, rate regulation has been seriously hindered, and the public has come to feel that it tends not only to retard the regulation of rates, but to defeat the very purposes of the commission laws. It is becoming increasingly difficult for the public to satisfy itself that the lengthy discussions of theories of value serve any useful purpose in determining whether the stockholders of a public utility company have received and are receiving returns sufficient to induce capital to flow freely into the business.

Another point is that the uncertainty with regard to the amount of net income to which public utilities are entitled under public regulation, promotes speculation in the ownership of these public utilities. The very theory of value that many of the leading court decisions seem to favor, invites investment in public utility enterprises. These are made not only for the sake of a fair return but also to enable a few individuals, usually the promoters of the enterprise, to lay stakes on the probability of unearned increments accruing to land value, increases in commodity and labor prices, and the surpluses from operation. Such promoters are speculators and their interest in public utility enterprises seldom extends beyond the initial period and the flotation of security issues.

26. *Regulation of security issues.*—The public looks to the commissions to put a stop to these practices. In recent years the commissions have been empowered to regulate the issue of stocks and bonds of public utility companies so that such issues may bear a proper relation to the investments actually made. Such supervision, however, touches only indirectly conditions that have been handed down from the past. There are many who fear that stock and bond provisions may result in establishing the speculative values fixed by promoters in earlier years.

27. *Regulation of public utilities still in developmental stage.*—On the whole, it may be said that the regulations of public utilities is still in the developmental stage, not only as to the law but also as to prac-

tice and procedure. If regulation is to develop in the future so as to contribute in a large degree to the welfare of the public as a whole, the public and the public service corporations must come to a just recognition of the claims of each other. It is often asserted that the public and the utility corporations are mutually antagonistic. This is not so. Many companies have found that the public is willing and anxious to be fair, if that feeling is reciprocated by the corporation in reasonable rates, good service and an evident desire to meet the public half way.

#### REVIEW

Why should public service corporations favor state control as against local municipal control?

If public service corporations are regulated as to rates and quality of service, are they not entitled to protection against competition or even undue interference on the part of the local municipality?

What disadvantages would there be in New Jersey following a policy of local municipal control over the Public Service Corporation of New Jersey?

Are franchises for 100 years justifiable from the viewpoint of (1) the company, (2) the public, (3) future generations? Give reasons for your answer.

Why is it claimed that the public and the public service corporations are mutually antagonistic? How can their interests be reconciled?

Under what conditions would you consider trolley lines supplementary or in competition with a railroad?

## CHAPTER XIII

### TRUSTS AND COMBINATIONS

1. *No clear-cut government policy recognized.*—Altho the necessity of regulation is recognized in the public service field of business, a very different question is presented when we consider the extension of governmental supervision to other parts of the industrial field. Two methods have presented themselves as government policies in the treatment of public service corporations—regulation or government ownership. In the remainder of the industrial field, a wider and less definite choice is presented. Here monopoly is not recognized as necessary or as even advisable. Competition is still thought by most people to be something to be preserved and guarded by the community. The government has not entered into this part of the industrial field in so tangible and so direct a manner as has been the case with public utilities. Substitutes can often be found for the products of most industries, so that the public is not so peculiarly dependent upon them as upon electric light, gas, water and railway service. Again these other industries are not generally recognized as public servants.

Many arguments could be advanced for a policy



of legalized combinations and trusts, even with monopoly conditions present, under a system of regulation, including such matters as prices, securities and publicity of accounts, and such a policy has been advocated by many people. But the idea of government ownership in this modern field is not so far advanced as is the case with public utilities, where it has taken a strong hold. The public is still groping in its efforts to find a satisfactory method of dealing with other industries.

2. *Definition of trusts and combinations.*—Outstanding in this general industrial field are the great combinations. Instinctively the mind conjures up the whiskey, the malting, the print paper, the steel, the sugar combination and a host of others. Their mere recital is evidence of the hazy definition given to the words “trust” or “combination.” In general, we mean by such terms any large industrial combination, whether it be a capitalistic monopoly, or actual competitive corporation, whether it completely controls an industry, or it is only the strongest company in any particular line, as is the United States Steel Corporation.

The word “trust” is applied by the public to big business. Trusts and combinations are here taken to mean manufacturing corporations with so great capital and power that they are at least thought by the public to have become a menace to their welfare, whether or not they have monopoly power.

3. *Why government interferes.*—There are several

reasons why the American government has seen fit to regulate or to prohibit trusts and combinations. As Professor R. T. Ely of Wisconsin sums the matter up, the public's apprehensions are due to:

The fear of monopoly power.

The fear of industrial concentration.

The fear of wealth concentration.

All these fears are closely connected in the popular mind. There is a widespread feeling that accumulation of wealth in the hands of a few, together with the enormous ramifications of corporate organization, and the ease with which combinations are nowadays effected are being used to oppress individuals and to injure the public generally. It has been a favorite line of argument, on the part of the United States government prosecutors, to assume that any organization controlling a large percentage of the total output of the country in its field is thereby proved to be a monopoly.

This argument was used in the cases against the International Harvester Company and the United States Steel Corporation. But it is by no means clear that monopoly can be determined by the percentage of the total output. The Steel Corporation has had competition during the whole of its history. The International Harvester Company controls some 85 per cent of the total output of the country in one or two lines of manufacture; but some of the Harvester Company's competitors, when put on the stand

and asked if they felt the Harvester Company's competition to be unfair competition, emphatically answered "No." When asked if its competition was real competition they said it certainly was, but that they were increasing their output in spite of it. These competitors did not believe that the Harvester Company could put up its prices materially as long as they maintained their own prices, and there was no agreement among the manufacturers as to prices. Monopoly cannot be determined in this way. Nevertheless there has been a widespread general fear of these trusts and combinations and the government has felt it necessary to take decided action against them. Before taking up in detail the policy of our own government some light may be found in the practices followed in Germany, England and Canada.

4. *Policies followed by Germany.*—In Germany no prohibitory legislation is placed on trusts or combinations. The government itself in some cases is part and parcel of such organizations. Under this policy a remarkable development in trade combinations has taken place, the old combinations being continually extended and new ones constantly formed. The German "Kartell" is usually in the form of an agreement regarding output and sales with severe penalties for their violation. Agreements often cover practically an entire industry and are enforced by the courts. In this country, the courts would hold them illegal and would not enforce them. Germany believes that good economic results come from such or-

ganizations and except in specific cases of wrong doing, contrary to the public welfare, does not attempt to prevent them. This, of course, is a marked contrast to the American policy.

5. *Policy followed by England.*—England also follows a liberal policy, making her distinction on the basis of reasonable and unreasonable combination. In the earlier days, under the Houses of Tudor and Stuart there were many monopolies granted by the kings, such as the monopoly of being the only seller of certain lines of products. Later under the Monopoly Act complete monopoly or general restraint of trade was forbidden, but under the English law from the earlier days even up to the present time, there have been certain forms of legal monopoly. On the restraint of trade the line of decision is most clearly marked. The English courts have held that a partial restraint of trade is not illegal unless contrary to the public interest. In other words, combinations which do not use methods that are unreasonable or harmful are not declared invalid under English law. Business in English industry is not hampered by a narrow governmental policy, it operates under specific laws against wrong doing, and reasonable methods and intention are provided for.

6. *Canadian policy.*—Canada, with economic conditions similar to our own, began its policy toward trusts and combinations in a similar manner, namely prohibition. The Dominion Criminal Code contains provisions against combinations and monopoly. Lately,

however, this purely negative policy has been greatly modified, altho not entirely superseded by the passage of the Combines Investigation Act of 1910. Under this law provision is made for a board of investigation composed of three persons, one representing the complaining party, one the defendant and the other a judge of the Court of Record. The board may be secured by any six persons who declare that a combination exists in respect of any article of trade or commerce and that prices are thereby enhanced or competition restricted to their detriment, either as consumers or producers and who can present reasonable ground for such declaration.

7. *Methods of regulation under the Canadian Act.*—Several methods of regulation are provided in case the charges are proved. The tariff may be reduced or taken off altogether on certain articles controlled by the combination, so as to bring about foreign competition. Patents used unfairly may be revoked. If the combination or person continues in a course against which the board has declared or does not carry out the recommendations made, such person or organization is guilty of an indictable offence and subject to a fine not exceeding one thousand dollars a day and costs. Where licenses under the Canadian Inland Revenue Act are used unfairly, their cancelation is possible and probable. Subsidies granted by Parliament to shipping or transportation companies may be revoked.

8. *Considerations in the Canadian policy.*—Ac-

ording to W. L. Mackenzie-King, former Minister of Labor of Canada,<sup>1</sup> the Dominion shapes its policy in the light of three possible considerations:

First. That it is the possible inimical effects of combination and not combination as such that is to be aimed at in legislation. This is frankly an admission that combination of itself is not necessarily a bad thing, but that it is an inevitable and necessary development.

Second. Canada believes that it is the duty of the government to see that the interests of the many who compose a state are not sacrificed to the interests of the few which favors and opportunities have helped to create; and

Third. That there are certain evils in combinations in which publicity is more effective than penalty, and that no single remedy may be formed for all the possible abuses that may arise.

9. *Beginnings of American anti-trust movement.*— In the United States from the end of the Civil War down till the late 80's, popular faith in competition unhampered by government regulation was the rule. In the 80's, many large organizations were formed. Many used reprehensible methods to stifle competition and took a trust form of organization which, as it seemed to permit combination of almost unlimited size and power, aroused great apprehension on the part of the public. Legislatures became agi-

<sup>1</sup> The Canadian Combines Investigation Act, *Annals American Academy*, July, 1912, Page 149.

tated, so that by 1890, 25 or 30 of our states had passed laws forbidding monopoly or combination in restraint of trade. Ordinarily, the law forbade all kinds of combinations in an attempt to keep business in the old competitive form. There is no doubt that had the earlier laws been strictly interpreted, it would not have been possible to do any business at all except as private individuals.

The effect of these laws, however, was not great. They were recognized as having been passed in response to popular outcry. In cases where the legislatures believed in them, business men did not. In consequence, business was generally carried on and combinations were seldom attacked. On the other hand, in some of the states an effort was made to enforce these laws rigidly, notably in Missouri and Texas. Suits were instituted and the acts were upheld by the courts. The consequence was that when it became apparent that it would be dangerous to do business on a large scale, there was either an evasion of the law or else the companies withdrew from the state. The International Harvester Company for instance, announced that it would not violate the law and that if it were going to be attacked as a law breaker it would withdraw; and it did withdraw from Texas. Texas has now (1917) passed a bill inviting back to the state the corporations convicted under the anti-trust laws.

10. *Sherman Anti-Trust Act.*—The Sherman Anti-Trust Act was drawn in much the same spirit as

some of these state laws. Indeed, Senator Sherman said that its purpose was to enable the Federal courts to "cooperate with the state courts in checking and controlling the most dangerous combinations that now threaten the business property and trade of the people of the United States." Altho the law was passed in 1890, until 1903 it was a negligible factor, apathetically enforced. At this time, however, perhaps as a result of a number of investigations alleging political corruption and unfair practices by combinations, public attention was focused upon the combinations, and a general wave of prosecutions followed under the Interstate Commerce Commission Act and the Sherman Anti-Trust Law.

11. *"Monopoly" in the Sherman Act.*—Under the Sherman law, "Every contract or combination in the form of a trust or otherwise, or conspiracy in restraint of trade or commerce among the several states or with foreign nations" is illegal, and "every person who shall monopolize any part of the trade or commerce among the several states or with foreign nations shall be deemed guilty of a misdemeanor." If an organization increased its business five or ten times simply thru using the most efficient means of production, it might very easily be called a monopoly, altho the organization may have had no thought of doing anything out of the way.

12. *Reasonable and unreasonable restraint of trade.*—In the first important cases the lawyers argued that altho the word "reasonable" was not



in the act, our law was a development of the common law and it would be the natural thing to suppose that this Act applied only to contracts in unreasonable restraint of trade and contrary to the public interest. The first important decisions that followed (especially those in the Trans-Missouri Freight Association, in the Joint Traffic Association, and in the Ad-dyston Pipe and Steel Co. cases) rather disabused business men of this feeling. The courts held in practically so many words that it was not the duty of the court to read words into a law, that Congress had said that every contract along this line was illegal, and that they would not attempt to take up the question whether or not a contract was reasonable.

13. *Standard Oil and Tobacco decisions.*—Then, in 1911 came the decisions of the Standard Oil and the Tobacco cases when a step was taken by the court that covered the chief point that had been advocated during the preceding ten or fifteen years by the people who were trying to get the Sherman Act amended. The court in these decisions said that there must be adjustment as to the terms of the meaning of the law and that if Congress did not make that adjustment, it was a matter for serious consideration by the Courts and that it would construe the law in the light of reason. These two decisions marked the real turning points in the American policy toward trusts and combinations. Reasonableness was to be followed in determining the actions of those forming trusts and combinations.

14. *United States Steel Corporation decision of 1915.*—Court decisions of the last few years indicate a still more liberal and constructive point of view toward honorably conducted corporations and combinations. From the viewpoint of the business man, the decision of the United States District Court for New Jersey, in the case of the United States Government against the United States Steel Corporation, handed down June 3, 1915, was one of the most momentous for many years. If it is upheld by the United States Supreme Court it will mark an epoch in our business history. For many years it has been well understood by those who have followed its methods of business, that the United States Steel Corporation has been attempting to manufacture good goods at the lowest cost, and to deal fairly with its competitors, with the consumers of its products and with its employes—altho, of course, there has been a decided difference of opinion between the officers of the corporation and of the labor unions as to the best methods to follow. The Court not only recognized these facts, but, what is of vital importance, it has officially declared that when business is carried on with these purposes and by these methods, a corporation is not contrary to the Sherman law, however great its size.

15. *International Harvester Company decision of 1914.*—It is an interesting fact and also a striking commentary upon the legal system of the United States that the District Court of Minnesota on August 12, 1914, altho recognizing that the International

Harvester Company had been carrying on its business in accordance with the same methods and with substantially the same results as those just mentioned, nevertheless decided that that company was a "trust" existing in violation of the Sherman Law. To be sure, the percentage of the entire output of the country in certain lines produced by the Harvester Company is probably larger than in the case of the Steel Corporation and, at the time of its organization, some of its constituent members were competing in certain products. Nevertheless the methods of its capitalization left less to be criticized than that of the Steel Corporation. The purposes of doing business have apparently been largely the same. A decision of the Supreme Court of the United States must, of course, be reached before we shall really know what is the law.

16. *Sound business principles recognized.*—Judge Elbert H. Gary, more than fifteen years ago, before the organization of the United States Steel Corporation, in his testimony on October 19, 1899, before the United States Industrial Commission, outlined the general line of business policy that he thought great corporations should follow in order that the best interests of the public as well as of the companies should be served. He said that in his judgment there was no possible way by which any company could keep down competition, even if it so desired. Speaking of the Federal Steel Company, of which he was then President, he stated specifically: "We have en-

deavored not to run counter and not to be antagonistic to the spirit of any law of any state; we are not attempting to control prices; we are not seeking a monopoly." And again, recognizing certain abuses that were found in some cases and the possible remedies for such evils, he said: "These great aggregations of capital undoubtedly are for the benefit of us all, certainly for the benefit of this country, and certainly for the benefit of the employes generally. But the aggregation of capital may be used in such a way as to do a great deal of harm. . . . I think the best remedy is plenty of light on the subject, plenty of discussion, a thoro understanding." On May 28, 1913, testifying in a later suit, Judge Gary expressed like opinions, asserting that the policy of the United States Steel Corporation has been consistent from the beginning.

17. *Affirmative decision by United States Supreme Court, recognizing honest business methods.*—Altho there may have been here and there exceptions, the two great corporations mentioned, judging from the facts that have been brought out by the scores of witnesses, have conducted their affairs in accordance with the principles of enlightened business. Since the decisions in the Standard Oil and Tobacco Companies, the decisions of the Supreme Court have indicated that it believed in good business methods and would interpret the Sherman Law as being not antagonistic to corporations that followed sound business practice; but in the individual cases before it, the

decisions have generally been adverse to the corporations—the Court holding that their business practices have been unsound and in many cases oppressive. There has been needed an affirmative decision that should state positively that any corporation following sound, honest business principles consistently, no matter what its size, would not fall under the ban of the Sherman Law.

18. *The real question involved.*—The decision of the District Court in the Steel case takes definitely and positively that position. The judges, referring to the Standard Oil and Tobacco cases, say: “These cases may be taken to have established that only such combinations are within the Act as by reason of intent or the inherent nature of the contemplated acts prejudice the public interests by unduly restricting competition or unduly obstructing the course of trade.” And again, “It will be seen that the steel and iron business of this country is not being and, indeed, cannot be monopolized, that the real test of monopoly is not the size of that which is acquired, but the trade power of that which is not acquired.” And further, “We dismiss once and for all the question of the mere volume or bigness of business. The question before us is not how much business was done, or how large the company that did it, the vital question is: “How was the business, whether big or little, done? Was it, in the test of the Supreme Court, done without prejudicing the public interests by unduly restricting or unduly obstructing trade? The question is one of

undue restriction or obstruction, and not one of undue volume of trade.”

19. *Public interest as shown by facts.*—These statements put the case squarely on the issues, not of verbal quibbles, or of legal technicalities, but of the public interest as shown by the actual facts. That position is the one that every business man wishes the Court to take. If the Supreme Court upholds this decision, it will do more to relieve business anxiety and put the country on the road to permanent prosperity than any possible legislation. Business men have hesitated to invest capital, because they could not judge how the Court would interpret the law. They had often followed strictly their consciences, knowing the facts, knowing that they were harming no one—and yet at times fearing that they might be breaking the law.

20. *Attempts to clarify the Sherman Anti-Trust Law.*—In order to vitalize and clarify the Sherman Law so as to meet the wide dissatisfaction on the part of the general public, who have felt that the dissolutions of great trusts have not accomplished anything of practical value, and on the part of the business interests, who have felt that the uncertainties of meaning of the Sherman Law have subjected business to continual harassment with no compensating gain to the general public, Congress during the Wilson administration passed the Federal Trade Commission Act and the Clayton Anti-Trust Law. In these acts Congress has attempted to provide an administrative

body to deal with these questions on their economic merits and to define acts so as to make the provisions of our anti-trust law specific and definite.

21. *Powers of the Federal Trade Commission.*—The Federal Trade Commission Act provides for a commission of five members, not more than three of whom shall be members of the same political party. The Commission has the following powers:

(1) Power to effect the readjustment of business and to prescribe appropriate decrees in equity suits.

(2) Power to require reports and classify corporations.

(3) Power of investigation.

(4) Power to prevent unfair competition.

In addition, by the terms of the Clayton Act, the Commission possesses:

(5) Power to prevent price discrimination, exclusive and "tying" arrangements, holding corporations and interlocking directorates.

22. *Readjustment of business and the prescribing of appropriate decree in equity suits.*—The Federal Trade Commission may upon application of the Attorney General "investigate and make recommendations for the readjustment of the business of any corporation alleged to be violating the anti-trust acts, in order that the corporation may thereafter maintain its organization, management and conduct of business in accordance with law." In a suit in equity the Court may refer said suit to the Commission, as a master of chancery, to ascertain and report an

appropriate form of decree therein," altho it is not bound by the report. Altho it is discretionary upon the part of the Attorney General and the courts to use the Commission, it is presumable that this will be done and that the decisions of the Commission will have much directing force. Much, of course, depends upon the composition of the Commission. The present body (1917) has won the good opinion of many business interests by its helpful spirit and sane view of conditions.

23. *Power of investigation.*—Aside from the power of investigation which is conferred upon the Commission as incidental to the functions just discussed, that body is given several other inquisitorial powers. It has the power to investigate the organization of any corporation engaged in commerce, excepting banks and common carriers. It may also "upon the directions of the President or either House of Congress, investigate and report the facts relating to any alleged violation of the anti-trust acts by any corporation." Also, it may, upon its own initiative, make investigation of the manner in which any final court decree entered against any corporation has been or is being carried out; and may "investigate, from time to time, trade conditions in the foreign countries, where associations, combinations, or practices of manufacturers, merchants or traders, or other conditions, may effect the foreign trade of the United States." It may also have access to the documentary evidence of any corporation being investigated and has power to



require by subpoena the attendance and testimony of witnesses.

24. *Power to require reports and classify corporations.*—The Commission may “require—corporations engaged in commerce, excepting banks and common carriers to file with the Commission, in such forms as the Commission may prescribe, annual or special reports, or answers in writing to specific questions,” it may also classify corporations and prescribe a uniform system of accounting. This may be of far-reaching importance in determining the relative efficiency of various kinds of organizations.

25. *Power to prevent unfair competition.*—The Trade Commission Act provides “that unfair methods of competition in commerce are hereby declared unlawful,” while under the terms of the Clayton Act, jurisdiction to prevent various specific acts has been vested in the Commission. These specific acts cover discrimination in prices among purchasers, the prohibition of “*tying*” and exclusive selling arrangements, the buying by one corporation of the stock of other corporations where such acts may substantially lessen competition or tend to create a monopoly. The Clayton Act also provides “that no person shall be a director at the same time in any two or more corporations engaged in interstate commerce which have a capital, surplus and individual profits aggregating more than 1,000,000 dollars.” This provision applies in cases where such corporations have been competitors, so that the elimination of competition be-

tween them would be a violation of any of the provisions of the anti-trust laws.

26. *Advantages and disadvantages of these new laws.*—One may question whether any very material alteration from the situation under the Sherman Act has been secured by the new legislation so far as it prohibits unfair competition, price discriminations, exclusive arrangements and holding corporations. The value of prohibiting interlocking directorates as enacted in the Clayton Law is very much to be questioned. "Tieing" arrangements were specifically upheld by the decision of the United States Supreme Court in *Henry vs. Dick*. The Sherman Act, therefore, could scarcely have been made applicable to any such arrangement in view of that decision. The Clayton Law, therefore, here prohibits an act previously declared lawful by the United States Supreme Court. The value of this prohibition in the Clayton Law may also be greatly questioned. The new laws provide for a body of men with wide investigatory powers who are to devote a considerable amount of time to the study of the question. These five men ought, therefore, to become specialists. The report of the Commission on combinations in foreign trade indicates that the Trade Commission will be a clarifying factor in presenting the economic side of the corporation question to Congress and the public.

It seems not improbable that the new laws mark a turning point in our attitude toward great corporations; that criminal penalties are no longer to be re-

lied upon for enforcement, but that enforcement shall be handled civilly, thru either the courts or the trade commission. This points toward the ultimate result that the main control of great corporations will be vested in an administrative board or body.

27. *Increasing power of Federal government.*—The formation of the Federal Trade Commission, the enactment of the Clayton Anti-Trust Act, and the more recent passage of the Child Labor Bill aimed at the production end of business by preventing manufacturers who do not come up to certain standards in the employment of labor from engaging in interstate commerce, all point toward an increasing power of the central government. The Federal government exercises its power over business thru the provisions in the constitution, giving it the right to regulate commerce among the states and with foreign nations, the power of taxation and the power over the postal service.

28. *Distinction between commerce and manufacturing.*—As trusts or combinations are generally manufacturing concerns, they are, so far as production is concerned, subject to state regulations, not Federal. As organizations engaging in interstate commerce they are subject to Federal supervision, not state. This distinction makes efficient control difficult and chaotic, leaving the business man between Federal supervision of interstate commerce and intricacies of legislation enacted in states. The new Child Labor Act is an attempt to make the commerce

clause in the constitution cover one factor in the manufacturing end of the business.

29. *Federal incorporation or license for interstate commerce.*—In consequence of this confusion, many business men favor a voluntary Federal incorporation act or a Federal license for interstate commerce. A Committee of the National Civic Federation, made up of lawyers, great business men and labor leaders, a few years ago drafted a Federal license bill which if followed would go a long way toward meeting these difficulties. The bill included the licensing by a Federal commission of corporations doing interstate commerce under provisions which would give well-intentioned organizations the opportunity to square themselves with the law. Unless the preceding decisions of the Supreme Court and the work of the Federal Trade Commission prove favorable to the country the passage of some sort of a Federal licensing act seems to be not unlikely together with an extension of the control of the Federal government over business in general thru an administrative body such as the Federal Trade Commission.

#### REVIEW

Why would regulation of a manufacturing concern be more difficult than that of a public service corporation?

What four policies may be followed by the government in dealing with business?

Why is monopoly recognized in public service corporations and not in corporations in general business?

Why is it necessary under modern economic conditions for the Federal Government to assume more power over corporations?

Why should we make a sharp distinction between big business, monopoly and dishonest business?

Can monopoly be determined by percentage of output?

## CHAPTER XIV

### THE POSTAL SERVICE

1. *Importance of the postal service.*—President Wilson at the annual banquet in July, 1916, of the National Association of Presidential Postmasters, declared that in every country the post office is the “conspicuous gauge and standard of what the government is doing for the people.”

From the viewpoint of government management the post office is of primary interest, as it is the best and largest example of government monopoly in this and in most other countries. The distribution of information and goods is of the utmost importance, as upon its efficiency and progressiveness depends in large part our modern, complex, rapid business life. From the very nature of the postal business, good economic and financial results should be secured. If the government does not or cannot operate the post office efficiently, there is little likelihood of its succeeding in the management of more complicated and less routine like lines of industrial activity. Much of the government expansion of business management is thru the enlargement of the postal department. The parcels post is a recent example of such expansion. In many other countries the telegraphs and

telephones are also run by the post office. The postmaster-general has lately proposed in this country to take over the telegraphs and the long distance telephones, and discussion is sometimes heard as to the advisability of even extending Government management to the railroads. The post office for many reasons, then, is worthy of careful study as a guide in settling the question as to whether further expansion in government management is a wise policy.

2. *Development of postal service.*—The development of the postal service is an interesting story. The first recorded postal service consisted of a regular system of sending messengers on the king's business in the days of Cyrus the Elder, King of Persia. Among the ancient Romans it was common to have postal routes as it was later in France under Charlemagne. So far as is known the first commercial post, aside from government messages, was established early in the Twelfth Century. In 1516 there was established a postal system for the Emperor of Germany and the position of postmaster-general was created. A regular post was established by Henry the Eighth in England—at first for the government but later for the people. Under James I in 1603 when there was a beginning of a monopoly system, James gave to a private interest a monopoly of hiring out horses to travelers. Soon after a special privilege was given in conjunction with this, for collecting and delivering letters.

A regular post was established between Lon-

don and Edinburgh in 1535, and finally the business became so profitable that in 1650 there was a special offer made of five thousand pounds a year for the privilege of a postal monopoly. A penny delivery rate was established in London as early as 1680. This was at first a private affair, but afterward was incorporated into the public system. Not until 1840, however, under Rowland Hill, was the principle of penny postage for all England established. To have one uniform charge for all distances was a great advance, and this plan of universal penny postage was not introduced into England until after long discussion. It was an innovation which it was thought would be extremely expensive. Hill claimed, however, that it would pay and it proved to be a great success.

The first regular post in the American colonies was established in 1682 and this was taken over in 1710 by Great Britain. The Continental Congress set up a post office system, Benjamin Franklin becoming the first Postmaster-General. Postmasters at that time had the exclusive privilege of sending their own newspapers thru the mail. In 1792, however, it became a law that any newspapers, no matter by whom published, could be sent.

The postage stamp was introduced in England in 1840 and in the United States in 1847. In 1876 an international postal union was established among the different nations so that regular mails could be exchanged.

3. *Activities of post office constantly expanding.*—

To the post office department a number of other activities besides the transmission of mail have been attached and there is no telling what further functions may be given it. Registering letters was a great innovation when first put into effect.

The money order system is relatively a late development. It was first established in England as a private matter thru the enterprise of three English postal clerks. They developed the system of sending money thru the mails and later it was made a part of the regular postal work. Postal savings was established in Great Britain in 1861 but not until lately in this country. In 1865, too, Great Britain started in connection with the postal savings a system of annuities and life insurance. The carrying of parcels by the post office also began in Europe much earlier than in this country.

4. *Particular reasons for government management of the post office.*—There are many special reasons why the post office in particular should be managed by the State. The idea of a government monopoly appeared early, and from the very beginning as a result, the post office had a close connection with the Government. The need for secrecy also, from the first, was very important and the State, in those days, was the only agency which could undertake and guarantee this. We do not ordinarily think much about it, but the European war has shown us how often it becomes extremely embarrassing when the privilege of secrecy is withdrawn. The loss and de-



lay consequent upon the interference with mails has been clearly brought out during the great war by the action of Great Britain in stopping and examining mails between the United States and neutral countries. It has even been claimed that this practice gave much information to British manufacturers regarding American business connections.

In business dealings individuals in the United States will trust to the mails, information which they would not trust to the telegraph or telephone. While the employes of the telegraph and telephone companies are sworn to secrecy, at times they cannot be trusted and often are careless or indifferent.

5. *A field for government and revenue.*—The post office was early seen to be a possible source of profit, and the State undertook it for that reason. At the present time, however, only a few countries are actually running their postal system at an apparent profit, altho even in these countries a profit is doubtful if proper accounting covering all items of expense were in vogue. In the United States, the deficits for a number of years have been very large so that the total loss from 1837 to 1912 was well over three hundred million dollars, and this amount would be very much larger if proper charges were included in the expenditures.

6. *Social aspects prominent in the post office.*—The educational and social aspects of the public management of the postal service are also very great.

The cheap delivery of letters, newspapers, magazines, and books is extremely important. The extension of service into country districts where no private company can afford to extend it, is worth while from the social and educational viewpoint. This service can be most easily secured by government monopoly. The postal saving in accepting money from those who will not trust the ordinary banks, and who in many places have not the right kind of banking facilities, is also a great social gain.

The post office, then, has many historic reasons showing why it is peculiarly a business to be managed by the government. In other ways also, it is marked off from common industrial enterprises in such ways as to indicate that it is a fit field for public management to enter.

*7. Should be run efficiently and economically.*—The post office is uniquely a business which the government should be able to run efficiently and economically. The risks of ordinary trade are absent. In the post office, costs remain fairly constant, large quantities of materials do not have to be stored with consequent changes in prices or depreciation in quality. Very little of the speculative element is present, unforeseen losses are reduced to a minimum. A system of transportation is at hand in the railroads so that no expensive development of plant is necessary. Capital charges are low compared with other big business. Postal charges are simple. The business is one of orderly routine, reduceable to a system, and

needs, relatively speaking, a much smaller number of high salaried executives and technical men. Above all, it is under the constant eye of the public, which is able to check up and to object if things go wrong. Very few kinds of business in brief are so admirably adapted to the difficulties of government management. If, then, the government is not able to run this business efficiently or economically, there would seem to be little hope of its succeeding in a more complex, more difficult enterprise. A brief examination then should result in a clear-cut decision as to whether the post office should further extend its activities.

8. *Financially a failure.*—The United States Post Office from 1837 to 1912 had a total deficit amounting to the tidy sum of \$330,000,000. Even at this, the loss is probably underestimated, as accurate accounting methods which included proper expenditures would without doubt, considerably raise the amount. Was this amount deliberately devoted to the public service?

In the political jealousies between different administrations, slipshod methods are often interestingly brought out. In a statement issued May 30, 1913, Postmaster-General Burleson in trying to overthrow the contentions of former Postmaster Hitchcock that a surplus had been obtained during the latter administration, said:

Notwithstanding the great zeal displayed in the effort to place the department on the so-called paying basis, and the resulting injuries to the service, the claim of the former

Postmaster-General that the service actually yielded a profit in 1911 has no foundation in fact.

Instead of a surplus of \$219,118.12 for that year (1911), as claimed by my predecessor, it is clearly demonstrated that there was in reality a deficit of more than three-quarters of a million dollars. Furthermore, a close analysis of the financial statement for the year 1912 discloses the fact that the admitted deficit of \$1,758,523.10 for that was understated by nearly \$100,000.

9. *Proper accounting methods lacking.*—An interesting experience of a private nature confirms the statement regarding possible inaccuracies. Some time ago in directing a brief study of the parcels post for the Alexander Hamilton Institute, some inquiries were made as to the cost accounting system employed in the Post Office Department under Mr. Burleson's administration. One of the auditors in the Post Office Department was asked what system they had for cost accounting. The auditor replied "Why, man, what are you thinking of? There is no such thing in the Post Office Department." Further inquiry verified the statement. From the standpoint of a business man or an express company this would look like very loose management, but as a matter of fact the auditor could not give any definite statement of their cost accounting system. The fault is clearly not confined to either party or either administration. It is a question of government management.

10. *Other factors causing inefficiency.*—Many other reasons can be given why the post office makes a sorry showing along efficiency lines. An editorial

from the *Saturday Evening Post* of November 9, 1912, sums up many of the difficulties.

In spite of civil-service reform, the spoils system is pretty largely in control of the Federal government, and virtually in complete control of many state governments. Naturally heads of departments, who are the President's political advisers, change with a new administration; but many subordinates in the most responsible positions, who ought to stand or fall solely by the value of the work, are turned out for political reasons. Civil-service rules protect the clerk in his humble job, but not in his ambition to reach the more responsible position; that is still the spoil of politics. Marshals, revenue officers and postmasters by the thousand are appointed because of their politics, or fail of reappointment on the same ground. The public is taught to regard government office as a "plum" to be won by political service.

As long as thousands of purely administrative offices, including most of the more responsible ones, are plums of political government in nation and state, administration will cost hundreds of millions more than it should. When an ambitious village postmaster has the same chance to become a city postmaster that an ambitious village station agent has to become a city station agent we shall have economic and efficient government—but not before. Fortunately the present Government seems now inclined to extend the system.

11. *Extravagance and special favors.*—Postmaster General Burleson in his 1915 report, in speaking of the reorganization of the rural service, says:

To provide for such a vast service necessarily calls for a huge expenditure of money, and this very fact makes it imperative that the administration of the rural service should rigorously exclude everything in the way of privilege, extravagance, or special favor. The controlling considerations must be efficiency and equality of service. Unfortu-

nately these have not been the controlling factors in building up the rural delivery in the past.

A thoro investigation reveals numerous examples of special favor and privilege which as a whole constitute gross extravagance. In former years new routes were established with little regard for service already in operation. Long retraces were numerous which served only one or two families, and were maintained apparently for the sole purpose of continuing the routes at the standard length. In other cases it was found that short routes had been created over which service was provided twice a day, affording patrons of such routes facilities denied the great majority. Nearly all such service constituted special privilege, and is indefensible and wrong.

Other examples are also given from the same report. In speaking of the erection of new buildings, the report says:

Many buildings are erected in cities where the cost of janitor service alone greatly exceeds the amount necessary to secure satisfactory quarters, including light and heat, under rental agreement, which is not believed to be a wise business policy. Money for public buildings should be expended very largely in the same manner as tho the Postal Service were being conducted by private enterprises. It is therefore highly essential that the public buildings erected for post-office purposes be standardized, and that their costs be commensurate with the needs of the service.

The growth of the parcel post has led to an increased demand for the business interests for the establishment of post-office stations in various sections of the large cities, which lessens the necessity for the erection of very large public buildings. However, there are a number of large cities in which the buildings used for postal purposes are wholly inadequate, and it is believed that the funds used for the erection of public buildings should be expended in these cities

for the construction, not of ornamental buildings but buildings designed to accommodate the Postal Service and furnish adequate facilities for handling the mails, before any action is taken looking to the erection of buildings in towns where they are not needed and can not be justified.

The annual "pork barrel" measures including large sums for post offices in small towns where the postal income is very small is well known to all. A recent postmaster-general himself said that if he could keep down "useless extravagances not postal but political" the country might have one cent postage.

12. *Reasons for the parcels post.*—Three motives actuated the establishment of the parcels post: (1) the experience of other countries, (2) the possibility of lowering rates, and (3) the universal resentment at the attitude of the express companies. The express companies by their attitude at times toward the public, perhaps deserved to be troubled. The entrance of the Government into the express business is a good example of government competition with private companies in such a way as to cause a remarkable improvement in the latter's methods and point of view. The companies to meet the parcels post competition have given better service and lower rates, partly under order of the Interstate Commerce Commission. From this angle, the entrance of the Government into the parcels post business was serviceable.

13. *Parcels post introduces a new principle.*—The direct carrying on of a business in competition with private companies thru a general parcels post, how-

ever, seems to introduce a new principle in our Government work. If so, it should be justified on the ground that it does actually effect a saving of industrial energy to the people; and that is a question that seems by no means to have been settled. An investigation made some time ago by the Research Department of the Alexander Hamilton Institute with the aid of some hundreds of shippers as to the relative efficiency of handling packages by freight, by express and by the parcels post, covering an average business of 118,000 parcels per day, indicated that, altho, in the opinion of these shippers the parcels post had the advantage of the express companies in cheapness, in all other particulars—speed, convenience in pick-up and delivery, care in transit, collections, cost of insurance, tracing of lost packages, and adjustments of claims—a large majority of the shippers preferred the express companies. Even in the matter of cost, the charges by freight were cheaper than by the parcels post, but, of course, the character of the packages differed. Even as regards cheapness, however, some shippers said the post was unsatisfactory, since it took longer to prepare a parcel for mailing than for express, the packing cost more, the package was more liable to breakage, and if lost, the Post Office Department “fills out a paper and makes an attempt to locate it but never finds the goods.”

14. *Post office has never determined costs.*—Again the question of cost to the public in distinction from cost to the shipper seems as yet entirely unsettled,



for, so far as one can learn, the Post Office Department has no system of cost accounting in connection with the parcels. In consequence no one can determine whether really it is carrying at lower cost than do the express companies, or whether, as seems not improbable, the difference in charge to shippers is made up by the low rates forced upon the railroads against their will, or by shifting the burden upon other branches of the postal service, or upon the taxpayers. The railroads claim that they have been most unjustly treated and many senators and members of Congress agree that the burden has been placed upon them. Certainly the Post Office Department has no right to claim success in this regard until it can show cost accounts that are clearly comparable with those of the express companies.

15. *Government urged to take our telegraphs and telephones.*—Postmaster General Burleson in his annual reports has made the recommendation that the telegraph and long distance telephone systems of the United States should be incorporated into the postal establishment, and has claimed that the welfare and happiness of the nation depended upon “the fullest utilization of these agencies by the people, which could only be accomplished thru Government ownership.” In speaking of the recommendation of the War Department for the transfer of the Alaskan cables and telegraphs, Mr. Burleson also asked that the Porto Rico and Hawaiian systems be turned over to him on the ground that “the services are so detached geo-

graphically as to preclude complicated relationships with neighboring systems, and are sufficient in extent to afford valuable experimental demonstrations for the postal service looking to the administration eventually, of a complete national service." If the business and social welfare of the people of the United States are to depend largely upon a government-owned telegraph and telephone, it is well to consider how the population of European countries have fared under their government-managed systems. From the standpoint of the development of this industry, the United States and most of Canada with their private plants have had seemingly a much greater success than European governments have had with their publicly-managed plants. For example, the United States has 9.1 telephone stations to each one hundred of population, and Canada 5.6, altho its population is widely scattered, while the densely populated countries of Europe have only .8 stations to one hundred population. In Germany where public management is admittedly efficient, only 1.9 stations per 100 of population are to be found, 1.6 in England and 3.4 in London.

In the thirty-three cities of Europe with a population of over five hundred thousand, only 3.2 stations to one hundred population were used, while in the eleven cities of the same class in the United States, 10.4 were utilized. The investment in the United States in telephone companies is \$1,094,800,000 while the investment in Europe is \$635,925,000. It

is also worth while noting that whereas the investment per station in Europe is \$172, the investment per station in the United States is only \$125. Taking into consideration the quality of service rendered it would seem as if the private companies in the United States have made much better use of their capital. Even Congressman Lewis of Maryland, an ardent advocate of government ownership, admits that the Bell system is an organization whose securities are free from water or inflation. Looked at from any angle, the development of the private companies of the United States and Canada are far and away ahead of the government plants of Europe and even of Australia and New Zealand.

16. *Unprogressiveness of government plants.*—Mr. Sydney Brooks, speaking of the government managed telephone systems remarks:

But alertness and enterprise such as this cannot reasonably be expected from a government department. The characteristics of the bureaucratic mind and temperament forbid it. The organization of a government office, with a virtually irremovable staff, forbids it. The spirit of officialdom, with its traditions of subordination, its narrow professional outlook, its unwillingness to concentrate responsibility, its insensible stifling of initiative forbids it. When humanity has reached the place on which the ideal of service is a stronger impulse to sound administration than the hope of gain, and when politicians are inspired solely by an informed desire for the public good, things may be different. The marked and pervasive unprogressiveness of the great majority of the state telephone systems in Europe is not an accident. . . . I believe I am right in saying that not one of the innumerable discoveries that have transformed the

technical and commercial management and development of the telephone in the last thirty years has emanated from a Department of State, that European governments have been the last to adopt them, and that the verdict which experts are obliged to pass upon them, with perhaps one or two exceptions, is that they have not learned their business. Practically all the governments of Europe in their conduct of the telephone industry have made the vital and fundamental error of seeking efficiency thru economy, instead of economy thru efficiency. . . . For practically a decade the post office and the National Telephone Company have been working side by side in the development of the London telephone service. The published accounts show that tho the post office pays neither rent nor rates nor taxes, its working expenses have been seventy-three per cent of its gross receipts, whereas those of the private corporation, have been only fifty-six per cent of its gross profits. In view of these facts, Mr. Burleson's statement that only thru government ownership could the people secure the fullest utilization of their great industry seems to be an extremely doubtful proposition.

17. *What guiding principles should be followed?*—The question arises, can we find a guiding principle to determine where the post office shall stop its work. Shall it primarily do work for the government? Shall it protect the savings of the poor? Shall it promote private business and if so, shall this be done at the expense of the taxpayers or solely at the expense of the shippers? All these questions must be answered before we shall know where to draw the line. If the post office is to take over these additional activities—why? For better service, for cheaper service, for the effect upon the people in the way of protection? We must seek a guiding principle and we must be sure of our facts.

18. *Government should act on basis of accurate knowledge.*—That the tendency is at present strong toward increasing the field of government management thru the post office department is clear. It is by no means yet clear, however, how far it is wise to go in that direction. We are in the dark as to the clean-cut principles on which decisions should be reached, and as to the actual effects of existing conditions so gathered that the experiences of different systems are clearly comparable. Until the Government institutes a better system of cost-accounting so that we can know who it is that pays the rate on parcels, there should be no further expansion of the parcels post. While our privately managed telephone and telegraph companies show such initiative, progressive development and public spirit in meeting the nation's needs, one need expect no advantage in the post office management of these industries. Our postal savings banks seem to meet a genuine need, but surely the post office ought not to assume any responsibility in these matters without very careful consideration of the principles on which it is acting.

#### REVIEW

Under what conditions should the public be obliged to pay thru taxation, for the losses incurred in sending postal matter at less than cost rates?

Why is it impossible to place dependence upon the figures of the Post Office department showing surpluses or deficits?

Is it a wise move when we are ahead of the world in telephone development to change from private management to government ownership?

Why is a more rapid use of new technical inventions apt to be made under private management?

Is it wise under the standpoint of efficiency to greatly expand the activities of the post office?

If we cannot manage the post office efficiently, is there any hope of the government efficiently managing the railways?

In what ways are the railroads less adapted to government management than the post office?

## CHAPTER XV

### LOCAL PUBLIC UTILITIES

1. *Multiplicity of municipal activities.*—No more vital issue confronts public utilities today than the question of government ownership and management. In some countries this tendency has already progressed far. The apparent success of English and German cities in managing street-car systems, gas and electric plants, waterworks and similar utilities, is constantly brought to the attention of the American public. The American city is urged to go into every line of managerial activity, including such varied endeavors as supplying gas and electricity, running traction systems and ferries, managing slaughter houses, public restaurants, markets, bakeries, pawn shops, loans societies, savings banks, and many others, besides providing school lunches and legal aid. Many of these, under certain circumstances, may be desirable activities for a city government to undertake, but as one scans the items on the ever increasing and expanding list, one naturally looks for the principles which guide their selection. The discussion in this chapter must be confined to those important municipal utilities around which the main controversy centers. These include waterworks and gas and

electric light and transit companies. European cities have gone into the operation of these utilities extensively. In the case of waterworks, and to a degree in the case of electric light and gas companies, American cities have also made considerable progress toward complete municipal ownership and management. Can any principles of successful operation be determined which would lead one to decide whether or not government ownership is generally preferable to private management?

2. *Municipal ownership in the United States—waterworks.*—At the beginning of the last century there were in the United States sixteen water plants, only one of which was municipally owned. By the close of the century there were about 3,500 plants, of which more than one-half were publicly managed. Most of the larger cities of the United States now own their waterworks, the only exception being San Francisco. In general it may be said that there are three publicly managed waterworks to one privately managed plant in the United States. Upon good water depend the sanitation and comfort of a city's population. To obtain these benefits it is necessary, especially in the larger cities, for a government agency to control and to guard water sites, and they generally prefer to manage the plant—with sanitation chiefly in mind. There are, nevertheless, instances of cities' wishing to return to private management after testing public management of the waterworks.

3. *Electric light plants.*—Next to the waterworks,



electric light plants have the largest percentage of municipally managed plants. In 1912 there were 1,562 municipally managed electric light companies in the United States; an increase of 91.7 per cent over the number operated in 1902. In comparison with this there were 3,659 privately owned commercial plants with an increase of 30.4 per cent over the number in 1902. These figures are somewhat misleading, however, for when we take into consideration the revenue of the commercial plants as compared with the revenue of public plants, we find the former's gross revenue total was \$278,000,000 in 1912, as compared with the latter's \$23,000,000. By far the largest number of municipal plants are in cities with a population under five thousand. Of the total of 1,562 municipally owned plants 1,327 serve such cities.

Most of the larger cities in the country are supplied from privately owned plants. The electric light industry is a recent development, so that small cities have been able to undertake to supply this public need without breaking past contracts or, in most cases, competing with private plants.

4. *Gas works.*—Next in order comes the development in the field of gas production. By 1907, according to the National Civic Federation report on municipal and public ownership of public utilities, there were twenty-five municipally owned gas plants in the United States and ten in Canada. Since the gas industry is much older than the electric lighting

industry, private plants were organized early and cities have not been able to enter the field without buying out or competing with existing private plants.

5. *Street railways.*—The United States has had comparatively little experience with municipal ownership of street-car lines. The city of Monroe, Louisiana, with only twelve thousand inhabitants has such a line. The city of San Francisco, after innumerable difficulties, finally managed to start operating 10.9 miles of track in December, 1912. By the end of 1915, the number of miles operated was increased to about forty. The city of Bismarck, North Dakota, also operates a short street-railway line to the state capitol.

6. *Municipal ownership in Europe.*—In Germany and England, the movement for municipal ownership has gone much further. According to Frederic C. Howe, the German has carried public service ownership further than elsewhere. The following table will give an idea of the degree to which municipal ownership is carried out. It gives the number of plants under municipal ownership.

MUNICIPAL OWNERSHIP IN GERMANY<sup>1</sup>

Water supply .....	48
Gas supply .....	50
Electricity supply .....	42
Tramways .....	23
Baths .....	48
Markets .....	50
Slaughter houses .....	43

<sup>1</sup> "European Cities at Work," by Frederic C. Howe, p. 113.

ENGLAND<sup>1</sup>

Kind of Enterprise	Public Undertakings		Private Undertakings	
	No.	Total Capital	No.	Total Capital.
Water .....	1,045	\$330,914,491	251	\$197,850,964
Gas .....	256	173,919,089	454	375,348,459
Electricity .....	334	155,728,000	174	133,838,750
Street Railways ....	142	199,061,278	154	83,660,551
	<hr/> 1,777	<hr/> \$779,622,858	<hr/> 1,033	<hr/> \$790,688,724

7. *The issue: regulation or ownership.*—These utilities, as natural monopolies, are marked off from the general field of industrial activity by the fact that they cannot be effectively regulated by competition. With them the government has one of only three policies to follow: (1) to regulate; (2) to own and manage; (3) to leave alone. The last policy is a recognized impossibility under present social and economic conditions. The local government must either regulate or manage, and the real question before the American public is: Can we have efficient, thoroughgoing regulation of our private water, gas, electric light and transit systems so as to preserve to the city the advantages of private management and to prevent the abuses of monopoly conditions, Or can we secure better or equitable conditions of public service only under a regime of local government ownership and management? This is a question whose answer involves billions of dollars and the health and happiness of a large part of the population of this country. As De los F. Wilcox, consulting franchise and public utility expert, says:

<sup>1</sup> From "The British City," by Frederic C. Howe, p. 71.

Indeed, public utilities are coming to be what might be called an artificial, natural environment of urban communities. They are, so to speak, the second nature of cities, a supplement to sunshine and the air.

8. *Why municipal ownership is undertaken.*—In general, municipal ownership has been undertaken for a variety of reasons. In America one important reason is the alleged corruption of officials by the public utility corporations and the resulting wave of public indignation. Newton D. Baker, Secretary of War and former mayor of Cleveland, believes

that the movement for municipal ownership in the United States is the direct and immediate fruit of the misconduct of privately owned public utilities. . . . The instant result of inquiry was that all sincere and fair observers put their fingers upon the public utilities corporation as at least the greatest contributing cause of the corruption of the American city.

On the other hand, in fairness to many accused of corruption, it must be remembered that there is much justification for the statement made by directors and managers of the public utilities, that much of the bribery and corruption came mainly from strike bills and threats by legislators and other officials. Bribery was the surest and cheapest way to secure justice and to save themselves from oppression. It is much nearer the truth to state that now the cities are largely free from a condition of general corruption. In many ways, then, the movement for municipal ownership began rather as a reform than as a business movement. With corruption eliminated, the aspects

of municipal ownership in the United States would be completely changed.

9. *Moral aspect of municipal ownership.*—With the move to stop corruption went the idea that under municipal ownership lower rates and better service could be secured. Here again, whether justified or not, the prevalent opinion that the public utilities corporation had as its motto "The public be damned," added fuel to the fires of reform. Again, as Mr. Baker says,

As this expedient, municipal ownership, was in answer to a hitherto corrupting policy, municipal ownership began to have a certain moral quality in the eyes of those who advocated it. Men who were for municipal ownership were thought to be for honest municipal government, while men who were opposed to municipal ownership were said to be opposed to honest municipal government, and in favor of brutal and gang rule.

Doubtless these views were often wrong. That they existed cannot be doubted.

10. *A new point of view.*—Within the last decade a broader, more equitable point of view has obtained, and we are now able to study the problem in a more just and reasonable way. In the eyes of the public, municipal ownership is now seen to be fundamentally an economic policy, while the public utility corporation on its part has been learning that it is not only wise but remunerative to give good service, charge reasonable rates, and keep out of politics.

11. *Favorable interest rates secured.*—Let us examine some of the economic aspects of the question,

studying first the financial advantages which are thought to come thru municipal ownership. It is claimed that under a system of government ownership a city is able, with its prestige and with its power to tax, to borrow money at a lower rate of interest than private companies can. A question may be raised, however, as to how long these favorable rates would prevail if municipalities generally went into industry, with possible liability of loss and consequent increase in taxation. It is possible that under such circumstances much of this supposed financial advantage would be lost. And, again, some of the best corporations can borrow as cheaply as many of the cities—especially the small ones.

12. *No dividends on watered stock.*—It is also claimed that the city need not pay dividends on stock issues, only interest on actual loans. In many instances private companies have been capitalized far beyond actual investments and must pay dividends, in consequence, on watered stocks. Under municipal ownership this juggling of finance, the speculating in profits and dividends on fictitious values, is done away with. As a result, the consumer gains in lower prices and better service. It is a matter of fact and of degree. Some cities waste as much in the wrong use of loans as would easily pay dividends on much watered stock. Moreover, not all companies have the watered stock.

13. *Expense of regulation.*—Another saving, and a charge which should be directly added to the cost of

private management, is that of adequate regulation. If public ownership does not exist, effective regulation must be employed to overcome monopoly conditions. Effective regulation of transit lines and gas and electric light companies requires a force of experts and careful supervision, and the cost of such regulation is high. The advocates of municipal ownership assert that this cost is a proper charge against private management. But many experts believe that municipal management needs as much supervision as private management, and that the cost of regulation would not actually be saved. Theoretically, municipal ownership and operation would seem to give decided financial advantages. The supposed financial savings, however are largely offset by drawbacks.

14. *Better labor conditions under municipal ownership.*—On the part of labor, it is claimed that public management means better wages and working conditions. It is probable that in England where labor conditions have been poor, municipal ownership has been seized upon by labor as one of the means by which these conditions may be bettered. The labor party has had great political influence in that country. It is claimed also that the inevitable tendency of private ownership is to force down wages and keep labor conditions at a low ebb. As a result constant friction, frequently culminating in strike, has been manifest. It is asserted that municipal ownership can do away with these bad labor conditions to a large extent and that under it more equitable conditions will prevail.

And yet in Cleveland a few years ago the workmen in the municipal waterworks went out on strike, and many private companies meet with little or no discontent. It is the man that counts.

15. *Great betterment in social and political conditions claimed.*—Advocates of public management insist that under such a policy, social, political and ethical conditions are much improved. In fact, many assert that the betterment of social and political conditions is so great as to offset any poor financial results which may possibly be shown in a comparison of private and public plants. Corruption and class struggle are said to be eliminated. Public utilities are looked upon as servants of the people and are run from that viewpoint. Housing conditions, thru coordinated city planning with the traction systems, are improved. The temptation to control or influence the press is stopped. And yet experience in other cities seems to uphold the opposite view. Naturally conditions vary as the poles.

16. *European conditions different from those in the United States.*—All in all, municipal ownership would seem to give many advantages, but experience does not wholly support this theory. Most of the arguments for municipal ownership come from those who are impressed with the seemingly good results shown by European cities. Here we must be careful about comparative data. We must remember that in England, Scotland and Germany a high type of city government prevails. This condition has been the result



of many years of struggle and improvement. The aristocratic social conditions in those countries develop an extremely able type of municipal official. The form of city government favors this type. Homogeneous populations are also found in Europe, whereas American cities in nearly every part of the country are struggling with a considerable percentage of foreign-born non-English, speaking people. This difference in municipal conditions was seen in 1905, when the mayor of Chicago, invited Mr. Dalrymple, manager of the Glasgow municipal tramways, to confer with him upon municipal management of its street railways, for which Chicago had just voted. Mr. Dalrymple arrived in the United States a strong advocate of municipal ownership. A few weeks' residence in Chicago, however, convinced him that he had failed to allow for the complete dissimilarity of conditions. He opposed municipal ownership in Chicago.

17. *Municipal ownership in France.*—One also receives the impression from some authorities that the European verdict in favor of municipal ownership is unanimous. In France, however, where Socialism has made much headway and where state management of industrial undertakings is to a large extent prevalent, an entirely different story is told by Professor Paul Leroy-Beaulieu who gives in full detail the reason why French cities have followed a different plan. The experience in Paris is clear, and the writer is a high authority.

The municipalization of city public utilities, such as street-lighting, motive power, tramways, etc., has not gone far in France, tho it has many supporters, not only among our Socialists, but also among our Radicals. As most of the concessions for gas, electricity, water, and the street-passenger traffic expired in the early years of the Twentieth Century, it might have been thought for a moment that the Paris Municipal Council would have municipalized these different services. On the contrary, the Paris Municipal Council has, during the last fifteen years, made new concessions to private companies, in different forms and for varying terms of years, in the matter of all the services mentioned. This is a notable fact, for it was done tho municipalization was advocated by a large and influential group in the council.

The concessions which had been enjoyed for three-quarters of a century by the Paris Gas Company expired in 1905. But the Paris Municipal Council declined to assume the responsibility of directing that industry. It preferred the system by which it became simply "an interested party"—that is, the gasworks, belong to the municipality, but the making of the gas is done by a company which furnishes the working capital and which shares the profits with the city. In accordance with this arrangement, the city may end the concession every five years by giving the company two years' notice; that is to say, the city is bound for seven years. The first period of five years expired in 1910, without the city making use of this right, so that the present arrangement will last at least until 1915; and everything points to its continuing even longer; especially as the Municipal Council elected in 1912 for four years is friendly to the present arrangement. In fact, at the moment of writing, the city of Paris is negotiating a loan of 200,000,000 francs with which to enlarge its present gasworks and even to build new ones to be run under the present concession.

A similar arrangement—that of "an interested administration"—exists with the General Water Company, and in

1910 the city renewed this arrangement for a very long period.

Some thirty years ago concessions, beginning with a period running from 1882 to 1889, were granted to a half-dozen companies, each being given a fraction of the city, called a *secteur*. These concessions had to do with electricity, heating, lighting and motive power, and all will expire in 1914. Five or six years ago the Paris Municipal Council united all the *secteurs* and conceded the city's electricity and motive power for a period of twenty-six years—that is, from 1914 to June 30, 1940—to a large financial group called the Paris Company for Electrical Distribution. In the matter of electric lighting and heating, this company has a monopoly; but as regards electric motive power the Municipal Council reserves the right to permit other companies to furnish electric power to the city. Within the last few months a grant of this kind has come up for consideration, so that in this matter of electric power it is highly probably that the city of Paris will adopt a competitive system.

In the matter of urban passenger traffic, the municipality has had recourse also to the concessionary system under different forms and conditions. There are in Paris two distinct subway companies, the older and more important being the Metropolitan, whose concession is for forty years after the opening of the last portion of the road. The city assumes all the cost of tunneling, the company making the road-bed, building the stations, furnishing the rolling-stock and running the road. It gives the city one-third of the gross receipts and a certain portion of the increased traffic when it surpasses a fixed figure. The second subway company, the North-South, had made a different arrangement with the city. The company does all the work of construction, the city simply approving and supervising the plans and their execution and sharing in the profits, this share being based on the number of passengers carried. This concession is for seventy-five years.

And lastly, the city renewed three or four years ago for periods of about fifty years, with large shares in the profits, its concessions to all the tramway, omnibus and auto-bus companies.

Thus, from 1900 to 1910, inclusive, the Paris municipal council has been handing over to private companies under varying conditions for periods extending to 1948 and even to 1980, all the urban public utilities—electricity, water and passenger traffic, as well as gas, on a somewhat different plan, as explained above.

This system of concessions to private companies, producing a considerable reduction in the prices paid formerly by the public for its utilities, and offering the city considerable participation in the profits, is now both favorably received by Parisians and very advantageous to the city treasury. The public especially approves of the plan by which the city participates in the profits derived from the concessions.

This system is very beneficial to the Paris treasury. For instance, during the year 1910 it brought in 83,000,000 francs, of which 34 to 35 millions were from gas, 27 to 28 from water, 18 from the subway, and the rest from electricity. It is true that these 83,000,000 francs must meet the interest on large loans which the city was forced to have recourse to in order to carry thru some of these enterprises. But it is safe to say that interest and amortizements do not represent more than one-half of the sums which the city receives from these sources; and these sums are sure to increase gradually and notably. Toward the middle of the present century, 150 or perhaps even 200 million francs will be the minimum sum which the city will derive from these urban utilities under the present arrangement, of which sum at least one-half, if not three-fifths or two-thirds, will be net profit.

In the matter of urban utilities, most of the cities of France have copied Paris more or less closely. The excep-

tions are those towns where the municipal council is Socialist or Collectivist; in which cases some of the utilities, especially that of lighting, have been municipalized. But these are rare exceptions in France, and the experiment has not, as a rule, been a success. The city of Elbeuf, for example, offers almost a tragic case. A few years ago the municipal council and the mayor decided to municipalize the gas. Their initial step proved most disastrous, and the municipal gas company was run at a marked loss to the city treasury. The mayor, who represented his town in the Chamber of Deputies, was so affected by the situation and the unpopularity in which he fell, that he actually committed suicide. His death was followed by a new election, when the victorious municipal council immediately leased the city gas interests to a private company.

As a result of all this, municipalization is not in good order just now in France. A very striking proof of this has recently been furnished. Consequent of the wide-spread complaints over the increased cost of living, the Caillaux Cabinet brought in a bill authorizing the Paris municipality to establish butcher-shops and bakeries. But public opinion was so opposed to this project that the Poincare Cabinet, which succeeded the Caillaux Cabinet, promptly withdrew this bill.

It is true that the city of Paris has decided in principle to call for a loan of 200,000,000 francs for constructing, or aiding by loans, the construction of cheap workingmen's homes, and that the government has introduced a bill to enable French towns in general to do this same thing. But the bill provides that the towns must, as a rule come to an arrangement with some cooperative or ordinary stock company to whom will be loaned, at a low interest, the funds necessary to build these houses. So the general idea of the bill is that the municipalities will neither construct nor manage these houses. Even the Minister of Labor, Mr. Leon Bourgeois, who belongs to the advanced democratic party, has concurred publicly in this view.

18. *Policy of favoring workmen by reduced rates.*  
—In comparing American and European cities even in specific and seemingly simple items, such as fares and service, great care must be taken. In considering the relative advantages in fares in one country over another, one must look into the question of the distance and the system of transfers. Much, for example, is made of the fact that many European cities favor the workmen by reduced rates during the early morning and the evening hours. Yet under private management in the United States and in Canada this system is becoming more extended. Montreal, the largest city in the Dominion, has a rate of eight tickets for a quarter, usable between five and eight o'clock in the morning and from five to seven in the evening, while six tickets for a quarter, or twenty-five for one dollar, can be bought for ordinary travel, and ten tickets for a quarter are sold to school children. American cities are adopting a similar plan.

We have in this country the custom, pretty generally, of a single fare. In most of the European cities it is customary to charge a variety of fares, according to distance. The City of Glasgow has owned and controlled its municipal utilities for a long time. The street railways have an increasing fare. Careful studies have been made of this plan in Glasgow, and it is by no means sure that the plan is always good. In the first place, this rate of fare increasing with distance, which is almost universal in Europe, tends to congest the population within the lowest-fare area.

The second point is that as a rule those cities do not have a system of transfers. When you change from one line to another you pay your fare again. So, it is argued, on the whole the average fare paid by the average passenger is about as high as it is here. If a man transfers twice, he must pay three fares.

19. *Poor systems of municipal accounting.*—Again, one must keep in mind the fact that methods of keeping municipal accounts, especially in this country, are usually faulty. For example, Mr. Halford Erickson, member of the Wisconsin Railroad Commission, states:

One problem that has been very hard to handle is the adjustment of municipal reports. It is the purpose of the Uniform Classification to make utilities of the same class, regardless of form or ownership, comparable with one another. In bringing the accounting procedure of municipal utilities in line with these uniform rules, many more obstacles and difficulties have been met with than in the case of private plants.

It is a difficult task to accomplish any permanent advancement or improvement in the accounting procedure of the municipal utility when the entire municipal system, coupled up with that utility's administration, may be unscientific and inadequate.

An extract from the Fifth Annual Report of the New York State Public Service Commission of the second district for the year 1911, is pertinent in this connection.

There are in the state two cities and forty-eight villages that operate municipal lighting plants. Such municipal

plants are, with a few commendable exceptions, unable or unwilling to adopt the practices of modern accounting. In many instances the bookkeeping is limited to a record of consumers' accounts, and a simple statement of receipts and disbursements, with little or no attempt at analysis or classifications. In some cases the affairs of the lighting plant are so inter-related to those of the water or of some other department, and the accounts of the two departments are so confused, that it is impossible to determine the actual results of the operation in either department. It is a matter of prime importance, when municipalities embark upon business enterprises, that they should adopt businesslike methods; but the citizens of many a village are convinced that their lighting service is cheap when, as a matter of fact, it is dear because the lack of proper accounting system fails to reveal the actual conditions.

20. *Modern development affects advantages of municipal ownership.*—One of the greatest advantages for a system of municipal management is that various kinds of public service plants can be coordinated into a single scheme of operation. In this way costs are reduced and much saving in both service and rates results to the public. On the other hand, in the private field two counter developments may be noted. In many cases, street railroads will be found supplying facilities such as electric light and power as well as transportation. Since the same power can be used for a number of different operations, private companies have likewise the opportunity of effecting a considerable money saving in the use of power thru interaction of the different plants. From the point of view of profits and ability to give low rates, this coordination offsets many of the advantages of pub-



lic ownership and management. In earlier times when one private company supplied a city with gas, a second with electric light, a third with street railways, and a fourth with water, it was apparent that if the city owned all of these the same power might be used to advantage in pumping the water, in running the street cars and in furnishing the electric light and gas. To a great extent this is true and is a matter of great economic significance.

But if these private companies are combined, the saving will be the same. For example, the Public Service Corporation of New Jersey in 1912 was supplying electricity and gas for electric street-railway service to 202 municipalities with a population of over 2,000,000 people. As a result, the quality, the price and the continuity of service was superior to what could be obtained from a number of small or struggling enterprises. The Pacific Gas and Electric Company of California in 1912 was operating in thirty counties of central California, furnishing electric light and power to 187 communities, besides furnishing gas, water and street service in many of these cities. The area covered was 87,700 square miles, and about 55 per cent of the population of California was being served. The Central Illinois Public Service Company was serving 87 communities which were formerly supplied with power by 49 separate generating plants. By consolidation these plants were reduced to eight and later to four, capable of producing all the needed energy. The Boston Edison

Company now covers an area embracing 700 square miles. This argument for municipal ownership, it is thus seen, is largely superseded by this modern movement in the private utility field. In fact, it would be difficult even impossible for a municipally owned plant to cover such a wide area, as such plants are restricted in many ways in their extension to outside cities, whereas a private company is able to serve a whole state, with the economies resulting from such concentration.

21. *Development of holding companies.*—The development of holding companies in public utilities is another important recent development. Thru holding companies, unrelated properties, widely distributed—in many cases over several states—have been brought together under one central control and management. The holding companies do not, however, aim to kill competition thru monopoly. The nature of these business activities, with their essentially local market, makes it impossible for isolated or scattered public utility companies to compete. Thru the holding company profits and losses are averaged, purchasing and operating costs are lessened, security issues are made easier, and thru a standardization an increase in service and facilities is made possible and a superior technical ability can be secured. This development is bound to have a great effect in preventing the extension of municipal ownership.

22. *Municipal government still inefficient.*—Much

is made of the financial benefits accruing to the public thru municipal ownership. Yet, despite the undoubted great improvement in city management during the last decade, municipal management is still so inefficient in comparison with private management as probably to outweigh any financial advantages which the advocates of municipal ownership claim. Inelasticity of management, favoritism in appointments, inability of the public to see the value of paying high salaries for highly technical positions, too large a labor force, the inability to resist the political appeal of municipal employes or the demand of consumers, and the lack of initiative so often found, all operate as a dead weight on efficient government management. And yet, doubtless, cases may be found, especially in small cities, where able upright officials run a municipal plant on sound business principles as efficiently as a private company could.

23. *Municipal ownership advisable where health, sanitation and public safety demand it.*—In general, it may be said that in industries in whose conduct health, sanitation and public safety are involved, especially if police protection is required, the larger public interests will usually call for municipal management. This probably is the reason, especially in view of the larger and larger concentration of population, why municipal management of water works is rapidly becoming prevalent. The task of securing pure water and keeping it from pollution, if large

watersheds are to be protected, people will generally feel can be more satisfactorily handled by governmental than by private agencies.

24. *Where profit is the predominant motive, private management is better.*—Where profit to the municipality and savings to the ratepayers are the predominant motives and where effective public regulation is possible, a system of private management would seem preferable. Especially is this true where public utility corporations realize their peculiar position as public servants and, as a result, are willing or can be compelled to give fair treatment, good service and reasonable rates. The policy of fair treatment, good service and reasonable rates will bring its reward in financial return to any privately owned public utility. On both sides there seems to be a growing realization of mutual responsibility.

25. *Issue must be settled by experience.*—Every one agrees that some form of government control of public utilities must be exercised. There can be no doubt that conditions have improved under the administration of public service commissions. The question of rigid public control of public utilities seems to be settled. Whether we shall eventually go further is something that will be settled by experience. In this respect the statement of Albert E. Winchester, of South Norwalk, Connecticut, is noteworthy. He says:

Until we have instituted needed reforms in our ways of carrying on the public's work, municipal ownership, to re-

place private ownership on any extended scale, should be considered most carefully before its adoption even as a final alternative. Otherwise, a simple change of ownership may result not only in a swapping of evils, but plunge communities into a debt, litigation and responsibilities which they may be unfit to bear, not to mention the ruination of investments.

Before municipal ownership as a commercial business is decided upon, it should be determined, without prejudice, by unbiased trustworthy persons whether or not it is the best alternative. Neither fancied reasons, theories, snap-shot judgment, spite nor personal grouch should be allowed in evidence. Both public and private interests have paid heavy toll and will continue to do so, because people do things collectively under lack of personal responsibility and unwise influences, from which, as individuals, they would shrink. Majorities may be wrong.

Therefore, tho it may be proven that a privately owned public utility has failed in its obligations to the extent that public ownership seems to be the only remedy, even then every reasonable means should be used to induce and aid the local concern to meet its just requirements. It is wiser to pursue patiently a determination to improve existing methods, than to multiply public burdens and responsibilities unnecessarily; and only communities that can thus consider this matter are fit to be trusted with extended responsibilities.

The municipalizing of any form of money-earning public utility carries with it great possibilities for good or evil. "What is medicine for one is poison for another," was never more applicable than to municipal ownership. Every community stands alone and must meet the issue according to the merits of its own peculiar condition and expectations.

## REVIEW

How and to what extent should a city try to prevent congestion caused by concentration of population?

Is it possible for a municipally managed plant to develop as has the Public Service Corporation of New Jersey?

Why is it unwise for a city to increase its number of municipal servants too greatly?

Do you think the public will play fair with a company following a policy of good service, reasonable rates and non-interference in politics? Why?

Are there any reasons why municipal management should be more efficient than Federal? If so, what are they?

Do you think a policy of lower priced trolley tickets at certain periods of the day, like that of Montreal, a good financial proposition? Give your reasons.

## CHAPTER XVI

### SHOULD PUBLIC MANAGEMENT BE EXTENDED?

1. *Government management not a panacea.*—To many, government management (here taken to include ownership with management) seems an obvious, relatively simple and practicable way of dealing wholesale with monopoly conditions. The Socialist party has as its cardinal principle the enactment of legislation directed toward public management of the means of production, distribution and exchange. Others see in the government management of the railroads, of the steel industry or of the merchant marine a simple panacea for the social ills of each particular industry or, in the case of land, for the economic ills of mankind. Against this wholesale point of view practical business men and the best scientific authorities, with practically no exceptions, emphatically protest.

2. *Advantages at times greater than disadvantages.*—It must be recognized, however, that under special circumstances and in some particular lines of industrial activity, the advantages of public management are indisputable and far outweigh the disadvantages. For example, to leave in private hands certain industries which, if their exploitation were left

unchecked, might threaten rapidly to deplete the natural resources of a nation, may be an extremely unwise policy for the State to follow. Private owners, who may be possessed of high personal integrity, but who as business men are not immediately concerned in the future welfare of the country, might by their actions force the public to take over the management of their particular industry in the public interest. Forestry—even the coal industry, in some instances—may be cited as examples of cases in which private ownership and management might lead to quick national bankruptcy of natural resources. Most people now recognize the need of our forest preserves.

3. *Importance of health.*—Industries vitally affecting the health of a nation or of a municipality may in many instances require government management. These industries include sewage-disposal plants and care of the streets and water works, all of which have social advantages under public management which overwhelmingly outweigh any disadvantages.

4. *Government manufacture of war materials.*—Certainly the rigid control, if not the actual manufacture, of war materials may be both economically and politically a wise course for the government to pursue. Ethically, also—and the ethical side of the issue is often overlooked in favor of the purely economic—there are reasons why the manufacture of war materials should be government-managed. Many people believe that the task of manufacturing death-dealing war machinery should not be left to private in-



dividuals for profit, speculation and perhaps even evil political propaganda. There is an undercurrent of moral feeling which is demanding rigid government control if not the manufacture of war munitions. Economics play a large part in determining the issue of whether or not any particular industry shall be government-managed, but one should never lose sight of the fact that social or political or ethical considerations may well predominate.

5. *The war and the extension of public management.*—The most unusual lengths to which, as the result of war conditions, some governments have lately gone in the management of business have startled not a few and have naturally aroused many questions as to the principles underlying the further extension of governmental activity. All agree that military efficiency must be the supreme goal overriding all other except internationally moral considerations at a time when nations are fighting for existence. It is well to remember, however, as Lincoln did during the Civil War, that many acts are justified as war measures which would be unqualifiedly condemned in days of peace. No one questions that in time of war, the government should go to extremes, not only in direct military defense, but also in the indirect defense of the country, by preventing commercial losses or financial crises. All the great countries now involved in the conflict have given us unique and startling examples of government management in fields usually left in private hands, such as the direc-

tion of private manufacturing plants supplying war materials, the control of prices, the complete regulation and distribution of food supplies, and the various financial measures taken in order to insure the normal business life of the nation and to prevent credit demoralization. All these war measures have been justified as necessary to the self-preservation of the nations involved.

An editorial in the *New York Evening Post* is interesting from the standpoint of the distance to which the governments of Europe have gone in the management of industrial and social affairs.

A recent Bulletin of the International Labor Office gives an idea of the extent to which government in Europe is being socialized by the war. Germany, of course, heads the list in state-conducted enterprise. Practically all the principal commodities are now controlled by "sale societies," which the authorities have ordered the chief producers to form. These official "Trusts" are forced to cooperate closely in production and in distribution and price regulation. They are also held answerable for the handling of the labor situation, again under Government direction. Indeed, control of the relations between labor and capital has been one of the chief socialistic preoccupations of the nation at war. France has practically conscripted labor, while at the same time regulating wages and hours of work. The most significant recent French legislation, however, looks to the apprenticing in trades of all unemployed children between the ages of thirteen and eighteen, not at school. Here is James's "Industrial Army" with a vengeance. The English have done an unprecedented thing by establishing an official blacklist for employees who leave their employment without due cause. To anybody who knows the English workingman and his conviction that he has an inalienable right under Magna Charta

to "chuck" his job whenever he gets tired of his employer's "jaw," this may seem the most revolutionary plunge taken by any government.

6. *What will the after-effects be?*—It will be interesting to note the after-effects of this extraordinary extension of governmental activity on the trend toward government management, which in this country, and in fact the world over, has been rapidly gaining headway. Will the ease with which governments have assumed control over private industries wherever necessary in this world-war, strengthen the hands of those radicals who have been advocating complete government management of the means of production and distribution? Will the interference on the part of the state in such complex matters as the control of prices and food supplies increase the demand on the part of the laboring class for further government interference and regulation and strengthen the idea that there is to be found the remedy for all economic ills? Will the socialist movement be advanced by these examples of varied public management, or will present experiences perhaps bring out thru actual trial the defects and dangers of complete state control and management? For example, will the entrance of the English government as employer into certain industries show English workingmen that the state with its arbitrary power is not all they thought it would be? Will the extremes of public management now in use lead to further activity along similar lines, or will they end in a reaction against state in-

terference? There is no doubt that the reconstruction period following the war will be one of the most difficult and at the same time one of the most interesting periods in the history of relations between industry and government. It may well mark an epoch in economic history. There can be little doubt that in the exigencies of war time the industries have been carried on by the government with little regard to expense. It may well be that when costs are carefully counted, private management will come again to the fore.

7. *The movement in the United States.*—In the United States the movement toward government management has been marked by the recent inauguration of the parcels post as an extension of the Post Office Department, by the recommended purchase of the telegraph and long-distance telephone, and more recently by the proposals in Congress for a large government armor-making plant, and by the shipping act which makes possible a merchant marine owned and managed by the government.

8. *A government-managed armor plant.*—In connection with the proposal for a government armor-making plant, the Bethlehem Steel Company laid its case frankly before the public in a series of pamphlets which throw a great deal of light on the whole question of government versus private management. The company claimed that it was a duty to its stockholders to preserve an investment of over seven million dollars in its armor plant, an investment made, at

the behest of the government, which would be rendered valueless if a government plant should be built. In replying to the statements made that the government had been gouged by high prices the company offered to reduce the prices or to accept the findings of the Federal Trade Commission as to what a fair charge would be, and agreed to accept such findings indefinitely. The company also claimed that it could and would produce armor plate at a price cheaper than that at which the government could possibly produce it, and sharply criticized government figures as to the price at which it could produce armor. The ethical, the social, the political and the economic points at issue have been sharply stated in this controversy. Something can be said for the government side of the case of course. It is clear that the government must control; but, judging by our experience in other fields, the investment of \$11,000,000 by the government seems a doubtful proposition economically, and the hope of a reduced armor cost, if proper accounting is made, seems largely chimerical.

9. *A government-managed merchant marine.*—If the proposal to establish a government-managed merchant marine had been based upon the necessity of having suitable ships promptly available as transports or auxiliary cruisers in case of war, few people would have objected; but as a step with no sound economic or political reason, many people had serious objections to such a move, especially as the reasons given for the move were vague and the benefits to be reaped

were problematical. As this was an administration measure backed and fought for by President Wilson, it is interesting to find in his book, *The State*, these words:

Indeed, such are the difficulties in the way of establishing and maintaining careful business management on the part of the Government that control ought to be preferred to direct administration in as many cases as possible—in every case in which control without administration can be made effectual.

10. *Extension of post office work.*—In this country the post office is the best and largest example of government ownership and management, and the entrance of the Federal government into other business activities is largely thru an extension of its work into such fields as the parcels post, banking, the telegraph and the telephone business and, as has been suggested, the taking over of the railroads. It is evident to all that any further extensions of post office activities should be determined largely by the success or non-success of present lines of work and the illustrations given in the chapter on the post office do not encourage further extension.

In this whole field of government activity no principles have been definitely established on a basis of fact in this country. We are confronted with arguments for government control of the railroads based on experiences in Europe, where social conditions are largely different and where the military aspects of the question predominate. The value of government

ownership, which includes planning of railways, has been sharply brought out by the remarkable use which Germany has been able to make of her railway lines during the present war. This primary military need does not, however, exist in the United States. Here again, one must be careful of facts, careful of purpose, careful to judge different social conditions. For example, in judging service and rates in Europe as compared with those in the United States, many varying factors, such as density of population, cost of living, taxation, and systems of accounting, must be considered before any definite answers can be given regarding the relative welfare of Europeans under government ownership as compared to Americans under private ownership.

11. *Dishonest financial methods must stop.*—On the whole, the American railroad system, when compared to those of other countries where State-owned railroads predominate, have little of which they need be ashamed and much of which to be proud. A most wonderful record, for example, is that of the Pennsylvania Railroad in carrying 453,952,298 passengers in more than 3,000,000 trains for a distance of 10,000,000,000 miles without a fatal accident.

Much of the feeling against the railroads in this country has come from financial juggling. It is a regrettable fact that several instances of such juggling involving whole systems have lately occurred which can be characterized only as robbery. Yet on the other hand we have illustrations of many railroads con-

servatively managed, with a long period of sustained dividend payments, fair dealings with employes and excellent service to the public. It is doubtful whether occurrences of bad management in private hands equal the inefficiency, the graft, and the pork-barrel methods of political agencies. The Federal government ownership of the Union Pacific Railroad was by no means a success. Railroad officials and financiers with the best interests of the railroads at heart must see to it that individuals of the type that managed the finances of the Frisco and the Rock Island systems are eliminated. Such practices only undo the work of legitimate industry, anger the public and make more strong the feeling that only government ownership will suffice to stop such conditions. Socialists and agitators are using such examples throughout the country with telling effect.

12. *Government management of railroads in Canada a failure.*—Mr. E. R. G. Gordon, speaking before the annual meeting of the National Civic Federation in December, 1914, said of Canadian railroads:

Leaving out the Canadian Northern, which is an uncompleted road, we have for consideration three great systems, the Grand Trunk, the Canadian Pacific and the Intercolonial, the latter owned and operated by the Canadian government. Both the Grand Trunk and the Canadian Pacific pay annual dividends. The former has usually declared five to seven per cent, the latter has yielded dividends up to twelve per cent. The Intercolonial Railway is known far and wide over Canada as "Canada's White Elephant." This government railway embraces 1,449 miles. It stretches from Montreal east-



ward thru the Maritime Provinces for a distance of more than a thousand miles. It taps the rich iron and coal mines of Nova Scotia and has a rail monopoly of that transportation. It ought to be the best paying railway system in Canada, but it is the worst.

The government has sunk over \$83,000,000 in this railway. Its gross earnings in 1909 were \$8,602,286 and its working expenses were \$9,052,522, leaving a deficit of \$449,536. In 1912, the best year the road has had, the operating expenses were \$10,593,785, showing a surplus of \$2,750. But the interest charges on the cost of this "white elephant" amount, at four per cent to \$4,520,279 a year, and the loss in taxes to \$700,000 annually. Thus we see that in its best year this socialistic railway lost, net, more than \$4,000,000.

A writer in the *Toronto Mail and Express* stated in 1907 that the Intercolonial Railway had lost an average of nearly \$4,000,000 a year for the preceding five years. The writer has traveled over the Intercolonial all the way to Sidney, N. S., and also over the Canadian Pacific Railway and the Grand Trunk. In reply to this question as to why this government railway failed to pay, one old farmer said: "Well, you see, the boys that run this 'white elephant' think more of getting the votes on election day than they do of getting the trains in on time." It costs \$7,500 per mile per year to operate this socialistic railroad, as against only \$5,000 for the Grand Trunk, and even less for the Canadian Pacific. In other words, experience proves again that bureaucratic management of industrial enterprises always means waste, extravagance, inefficiency and political bossism.

13. *Government-managed railroads in France not a success.*—Another bit of worth-while evidence, important because of its European source, comes from one of the best known and most reliable of European economists, Professor Paul Leroy-Beaulieu of the Collège de France, who, writing in the *North American Review* of March, 1913, and speaking of the Wes-

tern Railway, the largest and most important of the old government-owned railroads in France, says:

The State management of the Western Railway has been from the very start, and continues to be, a great financial and technical disappointment. For the first two years the whole line was in absolutely chaotic condition. The trains were never on time and the worst possible accidents were continually happening, whereas under the old management not a single passenger had been killed in ten years. Today the technical side is better than it was at first, but not better than it was under the old company. The financial results, however, could not be much worse than they are, and are a great load on the State Treasury.

In the year 1908, the one preceding the operation of the road by the State, the old Western Company had a net deficit of twenty-seven million francs, and consequently, in accordance with the plan then in force, the company borrowed from the State this sum with which to pay the interest on its bonds and shares. In 1909, the first year that the State had control of the roads, this deficit rose to thirty-eight million, five hundred thousand francs, and continued to rise as follows during the succeeding years: 1910, 58,500,000; 1911, 71,250,000; 1912, estimated 84,500,000, and 1913, estimated, 90,000,000 in round numbers. While I am writing these lines M. Cheron, Deputy and a former Assistant Secretary, publishes a report on the subject in the name of the Budget Committee of the Chamber of Deputies. He belongs to the Radical party, but has to admit that the figures of the estimated deficit for the year 1913 are "very disquieting," and adds that the estimated deficit for 1912, as well as that for 1913, is largely attributable to salaries of the employes, the increase under this head being 52,000,000 francs since the State took the road. In the Government offices, at least in France, there is always a tendency to over-increase the number of the employed. But in this way more citizens are made happy, and the party in power fares better at the elections.

Thus, as we have seen, the trial of State ownership in France is directly against that system, and consequently public opinion is now completely opposed thereto, especially enlightened, as it now is, by the financial and other shortcomings which have followed the State operation of the Western railway. It may be regarded as certain that, notwithstanding the seventy Socialist Deputies in the Chamber, it will be a good many years before another French Minister of Finance will venture to propose the State's taking over another railway.

This would indicate that European experience, so often put before the American public in such a favorable light, has another side.

14. *Conditions under which government management may be a success.*—Many years ago, in 1867, when the question of the purchase of telegraphs and railways was pending in Great Britain, W. Stanley Jevons, one of the most careful and unprejudiced investigators of the last century, stated that in his judgment state management possessed advantages under the following conditions:

(1) When numberless widespread operations can be efficiently connected, united and coordinated only in a single, all-extensive government system.

(2) When the operations possess an invariable, routine-like character.

(3) When they are performed under the public eye, or for the service of individuals who will immediately detect and expose any failure or laxity.

(4) When there is but little capital expenditure, so that each year's revenue and expense account will

represent with sufficient accuracy the real commercial conditions of the department.

In other cases he thought government management unwise.

Jevons thought the post office, in carrying letters, was a success, while in the same article he asserted that it is

but too sure that some of the State manufacturing establishments, especially the dockyard, form the very types of incompetent and wasteful expenditure. They are the running sores of the country, draining away our financial power.

In 1875, summing up the experience for some years of the post office with the telegraph, he regretted "the financial failure of the telegraph department . . . because it puts an almost insuperable obstacle in the way of any further extension of government industry in the present generation."

He favored strongly a parcels post, but said that "the experience with the telegraph department demonstrated that a government department cannot compete in economy with an ordinary commercial firm subject to competition."

Yet Jevons liked the idea of a parcels post and, four years later, in 1879, he urged strongly the adoption of a State parcels post for small packages, on the ground that it would be "a really great work of social reform to be achieved." He believed "it would be the harbinger of universal free trade if made international." His reasons were social and political, not economic. The same line of argument, however,

seemed to convince him that it was not practicable or wise for the State to take over the railways, chiefly on account of the complexity of management and the waste that would be almost certain to result from government administration.

15. *Many erroneous statements made as to costs.*—In the published statements of the relative cost of privately and publicly managed industries, many erroneous statements are made, based largely on inadequate analysis from an accounting standpoint. In the case of city-owned establishments, the direct expenses are regularly given, but overhead charges are rarely properly reckoned. Would any portion of the mayor's salary be included for general oversight? The chances are ten to one that the offices would be located in a municipal building which would be free from rent. No taxes would be paid to the city. Many items are usually left out that should be included in a comparison between a municipally owned plant and a privately owned establishment. If the comparisons were made fairly, and the reports included all items of cost, the figures would rarely be favorable to city management.

16. *Fallacies in government figures.*—Practical illustrations of the differing ways in which government and private costs are figured were given in the proposal for a government owned armor plant. The Secretary of the Navy estimated that the government could make armor at \$262 per ton in a plant of 10,000 tons' output running at full capacity. The

prevailing price at the time this estimate was made was \$425 a ton. This difference was claimed by the government as an advantage of government manufacture over private manufacture. The Bethlehem Steel Company, claimed, however, and rightly so, that this was fallacious as the estimated cost covered only labor charges and no general expenses, no insurance, taxes or depreciation of plant, no interest on investment and no capital cost.

But these items must be paid in one way or another. All these items must be covered, if not by the industry, then by taxes. Even government estimates of necessary items in such cases have often been notoriously underestimated. Correct accounting methods would make a vast difference in many of the statements regarding the supposedly low cost in government plants.

Regarding government accounting it is worth while to quote a few statements as to the methods employed in government affairs. President Taft, in his message to Congress, January 7, 1912, in speaking of economy and efficiency in the government service, said:

No general system has ever been devised for reporting and presenting information regarding the character of the expenditures made, in such a way as to reveal the actual costs entailed in the operation of individual services and in the performance of particular undertakings; nor in such a way as to make possible the exercise of intelligent judgment regarding the discretion displayed in making expenditure and

concerning the value of the results obtained when contrasted with the sacrifices required.

With large interests at stake, the Congress and the Administration have never had all the information which should be currently available if the most intelligent direction is to be given to the business in hand.

*The Saturday Evening Post*, in an editorial of December 14, 1912, puts the issue in the following words:

There is hardly a state, city or town in this country that makes an intelligent statement of its fiscal operations and conditions.

Every state, city and town publishes once a year a thing it calls a treasurer's report or an auditor's report—usually a very bulky thing, containing an interminable maze of figures. We venture to say offhand, that, as to about two-thirds of these reports, the best expert accountant in the United States could not construct from them such a concise and intelligible showing of income, outgo, indebtedness and cash on hand as the New York Stock Exchange requires from every corporation whose securities it lists. As to three-quarters of them, we venture to say that, if any such confused, occult statement were laid before the directors of a railroad, those directors would stand up in righteous indignation and discharge the whole accounting department on the instant.

Very properly we demand publicity for corporation affairs. Why not demand intelligible publicity for public affairs? Look up the last annual report of your state, city or town and see what you can make of it.

Dr. Frederick A. Cleveland, former Professor of Finance in the School of Commerce, Accounts and Finance of New York University, and director of the Bureau of Municipal Research, New York City,

chairman of the Federal Efficiency Board, an authority on efficiency in city government, in an article entitled, "The Need for Coordinating Municipal, State, and National Activities," states that:

If a citizen were to undertake to inform himself about the Government of the United States he would have before him a life work. Even the preparation of a statement of expenditures for work would require the analysis and recapitulation of reports prepared pursuant to ninety different acts of congress, which result in nearly two hundred reports relating to financial matters. The hopelessness of the quest further appears when it is found that in no two departments, and in many instances in no two bureaus in the same department, is the same classification used. It is therefore quite impossible to get together a statement of expenditures which will show the cost of activities for the Government as a whole.

17. *Why private management is more efficient.*—From the standpoint of accounting, then, a careful checking up is necessary before we can get an accurate idea of the efficiency of government management. But why are private plants more efficient than those under government management? Public management means a suspension of the struggle for existence which private management must always undergo. This suspension of the struggle for existence in public management applies to every grade of labor concerned—directors, managers and employes. The profits and losses of a privately owned business affect those engaged in it, while the profits and losses of publicly managed businesses are passed on to the public. In public business, the maximum of efficiency is



particularly difficult to attain. The tendency is toward over-organization. In any movement to reform the administration of public business the line of least resistance is usually followed, which generally means to get along with as little friction as possible, and to change as little as possible.

In private business, success comes only from a policy of activity and enterprise, of initiative and energy. The force of workers is keyed up, efficiency is the aim, and the results must be shown. Administrative reforms can be made and are not questioned. The director in a private concern is a general. The head officer in a public concern is generally a success because he is a pacifist, and because he uses methods that please.

18. *Private business dynamic.*—In matters of appointments or promotions, public business again is at a disadvantage, for, as a rule, appointments are made from civil service lists, and promotions must be made by seniority. Relatively speaking, while subordinates are often overpaid, the higher grades of employes are poorly paid. Security takes the place of opportunity. In private business, promotion generally comes from efficiency and production of results. High salaries are paid to the leaders because such outlay pays in the long run. Opportunities for successful men are greater, while the inefficient are vigorously weeded out. Opportunity will always secure the more progressive and the more ambitious. Public business tends to be static, private business is

dynamic. Public business is forever trying to secure efficiency thru economy, while private business aims to secure economy thru efficiency. Along these lines a tremendous advantage lies on the side of private business.

19. *Government management seldom a source of revenue.*—Government management is often advocated because, it is claimed, it is a profitable source of revenue to the State. The statement of *The Telephone and Telegraph Age* of New York, in its issue of February 16, 1912, speaking of the British experience with the telegraph and telephone, is worth quoting in this connection.

Forty-five years ago, in 1866, the proposal for the purchase by the government of the British telegraph lines was first advanced, and an allegedly conservative estimate set the cost at \$11,500,000. It took nearly three years to complete the negotiations, and in 1869 Parliament appropriated \$35,000,000 for making the purchase—more than three times the original estimate; but in addition to that, the government was called upon to pay the railway companies for their freehold interest in the telegraph equipment running along their lines, the right of way having been only based by the telegraph companies; that meant another \$20,000,000—so that the acquisition of the business stood the British government \$55,000,000. It was still predicted that within twenty years the new revenue would materially reduce the tax rates on the properties of the people. The disillusionment came quickly. For the first two years of the government operation there was a small net revenue, but after that the returns could not be made to meet the interest on the capital investment, and for the thirty-nine years this enormous interest has been paid out of the exchequer—the pockets of the people. Then telegraph rates were reduced

under the popular cry that reduced rates would increase the business and that increase would produce profits—but just the reverse was the result. The cost of maintenance and operation increased enormously under government ownership; and the revenues falling far below this, and the upkeep and necessary improvements constantly calling for more money, the drain on the exchequer became increasingly heavy.

In fact the treasuries of nearly all countries which manage telegraphs and telephones present annually occurring deficits, in many cases running into large figures and made good by taxation. The history of our post office shows one deficit after another.

Labor often makes the plea that conditions of work will be much better under the government, and state owned and managed industry is advocated on this score. Possibly this is true in some cases, but certainly not in all. Is the Federal service, for example, preferable, from the labor standpoint, to the service of the United States Steel Corporation, of the American Telephone and Telegraph Company, of the Pennsylvania Railroad with their welfare work, their business systems, and their quick recognition of ability? Possibly for many of the workers of the lower grades yet never for those of the higher. And wherever the workers of the lower grades receive wages higher than those of like grade in private employ, it must be kept in mind that the product does not pay these wages; the taxpayers pay them.

20. *Dangers of a large civil service.*—From another angle this question of labor in a wide range of gov-

ernment ownership would present a very great problem. Professor C. F. Bastable, professor of Political Economy at the University of Dublin, in his book on Public Finance, says:

One difficulty common to most forms of state industry arises from the necessity of dealing with large numbers of employes. The tasks of the modern State are sufficiently varied and comprehensive to take up all the ability and time of administrators, without adding unnecessarily to their duties. Public industries, however, require for their efficient working a body of organized hands, obtained by free contract. An unavoidable consequence is the possibility of disagreement between the State and its helpers, culminating perhaps in the last weapon of industrial war—strikes. The position of the public powers is in such cases a trying one. The agency that is bound to enforce order and fair play is one of the parties to the dispute; the natural disposition of an administrator in a popular government is to make things smooth by yielding to the demands of the discontented, a course that involves additional expense and injuriously affects the financial position. The pressure of the consumer—that is the community—for low rates, and that of State officials for better conditions of service, is the most serious financial risk that the industrial activity of the State is likely to encounter. The Prussian railway service controls its 80,000 employes on an almost military system, aided by the organization of the national army. But any attempt to direct the railway system of the United Kingdom on a similar plan would be hopeless. These facts and arguments ought not to be overlooked in America.

21. *Could dominate country thru vote.*—Senator Jonathan Bourne, Jr., in speaking of the eventuality of government ownership of the telegraph and telephone lines as advocated by Postmaster-General

Burleson, is of the opinion that government ownership would result eventually in complete domination of the government by its own employes, who would vote themselves such hours and such pay as they chose. He estimated that the taking over of the telegraph and the telephone, of the railways and electric lines, water transportation and the express business would result in adding more than 2,500,000 employes to the Federal service. He says:

Taking into consideration the fact that in the last ten presidential elections, the President has been elected by a plurality varying from seven thousand plus to little over two million and a half, the thought naturally arises that three million Government employes would absolutely control the government of our political machinery, the tendency being more pay, less service in Government employment resulting in resistless efforts on the part of outside labor to secure Government employment.

22. *Some questions to be asked.*—All in all, there are distinct limitations to the value of government management, from the standpoint of the public, from the standpoint of the consumer and from the standpoint of the wage-earner. Altho public ownership is not solely an economic question, in the main it is a business proposition which must be justified by its economic results. Even the economic results of the parcels post in the United States are still not clear and are at present the subject of controversy, while, judging from the results obtained in other countries with State owned telegraphs and telephones, it would seem as if in these particular fields we need exceed-

ingly careful study before going further. At least, for our own welfare, we should thoroly examine many questions before further steps are taken in putting additional industries under post office management.

Will the extension of such power give more opportunity for public corruption and more abuses rather than fewer? What will be the political effect of a greatly increased number of civil service employes? Will the extension of power result in a bureaucracy, and will it prove injurious to the progress of our country? Will rate-making be determined by ignorance and political pressure rather than by expert knowledge? Will the public pay for inefficient management and deficits in unjust taxation of the non-using public and thru injury to the public credit? The consumer is interested in knowing whether government management will mean better service, or poorer, unprogressive and dearer service, while the wage-earners, especially the self-reliant and well-trained, ask whether their chances for promotion will be fewer or more?

23. *The public must be sure of facts.*—If the government is to extend its management we must be sure of our facts, in order that our guiding principles may be sound. Hasty and ill-advised legislation passed for the sake of political capital may commit this country to policies which later, thru inertia and political influences, may be difficult, almost impossible to alter. There should be no undertaking of new activities on

the part of the government without careful consideration of the principles upon which it is acting and without accurate, definite knowledge of the facts by which it should be guided.

24. *A remedy to be sparingly applied.*—In general it may be said that government management is a remedy to be applied only after the means of adequate government control are found to be neither workable nor available. Government management is a policy to be applied in a limited way, and then only after due consideration has been given other remedies. It may be true that the special character of an industry or the peculiar circumstances under which it is carried on, involving large political, social, and ethical questions, may override the disadvantages of government management. Government, however, with its multitudinous activities, has a tremendous task ahead of it to work out principles of administrative efficiency and perfect existing methods of control and regulation. It seems, therefore, that a general policy of government management would only add to these difficulties, and would result in the loss of national industrial efficiency, bringing no real return to the wage-earner and loss to the consumer. If either or both profit, it will generally be at the direct and unjust expense of the taxpayer.

25. *Fundamental principle is public welfare.*—The fundamental principle to keep in mind is the promotion of public welfare. Every country needs to be studied by itself. In making comparisons between

the experiences of different countries we should be careful to take into account all determining factors—a practice that has by no means been followed. In our country, we may practically ignore the military aspect of the question. The political viewpoint is largely a matter of party policy, while, regarding the social, financial and economic aspects, there have been very decided differences of opinion. The arguments on neither side have rarely, if ever, been worked out carefully and without prejudice. Judge Elbert H. Gary states the issue well:

The guiding principle of the day should not be: "Let us be prosperous" but rather the broader one, "Let there be light." The rule-of-thumb days are passing. It is pre-eminently necessary for the people to be rid of panaceas and propagandists, of political theorists and demagogues, and to return once more to the simple facts as they are developed by experience. Let us emphasize these basic truths, and the judgment of the average thinking man may be relied upon to evolve the principles of action which are essential to the prosperity and happiness, if not to the very existence, of the nation.

## REVIEW

Under what circumstances should government industries be run for profit?

Should the government retain absolute control of all natural resources, or would you consider this an unwise restriction on development?

What is the competitive relation, if any, between telephone and telegraph companies?

Arrange in order the difficulties which a State would have in undertaking the management of (1) The United States Steel



Corporation, (2) Wireless telegraphy, (3) The International Mercantile Marine, (4) the long distance telephones.

If the balance of power of the Federal electorate were in the Federal service, how could they be prevented from getting what they demanded in wages and conditions of labor?

Why do private plants have better accounting systems than public departments?

## CHAPTER XVII

### INFLUENCE OF BUSINESS ETHICS ON GOVERNMENT MANAGEMENT OF BUSINESS

#### 1. *Government management at different periods.*

—Questions of right and wrong permeate life everywhere: family life, government, society, business. Traced to their origin, reasons for changes in the relations of government to the activities of the citizens, frequently, if not usually, lead directly to a question of ethics. The circumstances giving rise to discussions regarding governmental influence upon citizens vary with the stage of civilization, the type of society, the kind of government. In ancient Sparta, the government directed practically everything: family life, business, war. In many savage tribes, the government is likewise dominant over personal habits, usually, however, in the guise of enforcing the will of the gods. In other looser tribal organizations the will of any strong individual determines his act, because of the weakness of government.

With the growth of democracy, and perhaps of Christianity, aside from the influence of the church hierarchy, governmental domination over the acts of the individual seems to have lessened, altho from time to time in different countries there comes to the fore a demand for an extension of government regulation.

In the middle of the Nineteenth Century, especially in France and Germany, to a lesser degree in Great Britain and the United States, communistic and socialistic plans urging a greater measure of government control were strongly advocated, and at the present time in many countries the Socialist party has attained great strength. In Germany particularly, perhaps, this advance of the Socialist party has been marked; in the United States its growth has not been great, altho the indirect influence of its teachings has been noticeable. The growth of the Social Democratic party in Germany does not necessarily mean an increased belief in government ownership and management, for some the Socialist leaders do not believe in that economic policy. They have joined that party because it is the only party in their country that is really democratic in its political views. As we have seen, however, in preceding chapters, there has been a decided increase in Europe of government ownership and management of certain public utilities, and there are numerous advocates of that policy in the United States outside of the Socialist party.

2. *Influence of Civil War on public sentiment.*—Demands for social reforms of any kind usually come from a quickened popular consciousness of social evils. The causes of the awakening consciousness, and with that, perhaps, of the public conscience, are manifold. In our own history, the Civil War marked an epoch in political conditions, but none the less in industrial and social morals. Human

nature is one; and the exalted patriotism born from the sacrifices of the Civil War, which was fought, first, to save the Constitution, then to free the slaves, led to heart-searchings in other fields. Old-time abuses that had been tolerated because people thought little about them, were now seen and felt; and the determination to uproot abuses and to right wrongs became fixed. Then, from the principle of contagion, which fortunately is as applicable to things good as to things evil, this determination continued to be felt, and one abuse after the other, under the influence of the people's quickened conscience, has been swept away.

The barbaric ferocities on sea and land in the present European struggle may well be laid largely to the desperation of war. There seems no reason to doubt that, as was the case after our Civil War, so after this great European war, there will be found as never before an awakened consciousness of wrongdoing in industry and private business and a conscience more tender toward social abuses.

3. *Causes of demand for government management of business.*—It seems probable that the demand for government ownership of capital and government management of business is due very largely to beliefs in social abuses, which, it has been thought, can be lessened better thru the government than otherwise. The distribution of the product of industry among the different classes of producers has been by many considered most unjust.

The rise of the railways and the development of other forms of public utilities afford numerous examples of abuse. Franchises were secured by fraud and corruption; watered stocks were issued.

Discriminations were given by the railway to many of their larger customers thru secret rebates in freight rates that served to build up certain localities at the expense of others and to favor certain manufacturers by ruining their competitors. The traffic managers made agreements, which, often violated, led to rate wars followed by the formation of great railway pools. Excessive rates charged to some shippers were partly excused by the railroads on the ground that these same shippers and members of legislatures, powerful political executives, and, at times, even judges, demanded free passes, which under the circumstances the roads felt compelled to give. As these abuses became known, remedies were naturally sought; and in the excited state of public opinion, frequently mistakes were made from the effect of which we are only gradually recovering at the present day. The good intention of the people to remedy abuses and raise the standards of business morals cannot, however, be questioned.

4. *Interstate Commerce Law and Sherman Anti-Trust Act.*—It was thought that the evils of pools could be met by prohibiting, altho, almost without exception, special students of the subject—including the Interstate Commerce Commission created by the

law of 1887—have felt that pooling should be permitted under proper governmental supervision.

The danger of monopoly in the great industrial combinations, it was thought, could be stopped by direct prohibition of restraint of trade and of monopoly in business under the Sherman Act of 1890 which, if literally interpreted and strictly carried out, would have practically blocked a large proportion of the really legitimate, beneficial business of the country. Partly because no one believed that a literal interpretation could be meant; partly because the Executive Department of the Government of the United States, under that impression, at first did not attempt its aggressive enforcement; and partly, later, because the Supreme Court finally applied the "Rule of Reason" in its interpretation, it is now on the whole, helpful rather than harmful. But it came first to cure an evil.

5. *Wage-earners*.—Before the building up of the factory system in the early part of the Nineteenth Century, while there were doubtless many instances of individual suffering and abuses as painful and as gross as any that have since been known, these cases were not so massed that they appealed largely to the public. When, however, workmen were seen to be overworked, underpaid, made ill by unsanitary conditions in workshops, maimed by unprotected machinery, dying from industrial diseases, the public consciousness was aroused. When, thru the latter great inventions of the telegraph, the railways, the telephone, it

became possible for the manufacturers to build up great industrial combinations world-wide in their influence—to pity and sympathy were added fear, and the demands became stronger.

Out of the factory system had grown trade unions, whose united action gave power to their demands; and as the added means of intercourse made possible the upbuilding of the industrial combinations, they likewise facilitated the extension of the influence of the unions. The improved methods of communication also strengthened enormously the power of the press, which again with its human appeal led the public to demand reforms. Real wages, as well as money wages, should be raised; the poor should have a larger share of the product of industry; the conditions of work must be improved; factories must be made sanitary; the use of machinery must be made safe; miners must be protected against the dangers of their occupation; the hours of labor, especially of women and children, must be lessened; industrial diseases must be combated. In what way could all these evils that were now first becoming fully known and rightly appreciated in all their grim significance, best be remedied? Should it be by the action of individual employers acting independently? Should they still direct their industries but under governmental supervision and control? Or should the government itself take over the industries and manage them?

6. *Political influence.*—Charges were continually made also of the corrupting influence of capital upon

government. Legislators, it was claimed, members of the executive departments, even the courts, were being corrupted by the great corporations. On the other hand, it was alleged by the employers that the wage-earners were exerting an influence upon legislators which in many cases resulted in class legislation to the injury of the public and that, in specific instances at any rate, by threats of the exercise of their political power they were forcing unjust action upon even the President of the United States and upon Congress. Should the remedy be private negotiation or government management?

7. *Ethical standards of governments and of business men.*—Some writers speak of "government" as if it were some abstract power for good; as if a law forbidding an abuse would of itself end the evil. But after all, governments are composed of men with their weaknesses and bad points as well as their good ones, and laws do not enforce themselves—they are administered by men. Moreover, in a democratic government at least, the representatives of the people will not rise much, if any, above the level of their constituents, either industrially or morally. Long experience has shown that most laws which are really fundamental do not come from above down to the people, but are the formulated statements of customs that have grown out of the experience of the people, or are rules framed in response to the demands of the people. Why then should we expect that a business managed by a government should differ in its essen-



tial nature from one managed by private individuals, except as the motives of the managers might be different owing to their different circumstances? It is often asserted that these motives do differ, and it is on this assumption that the advocates of government management make their appeal.

8. *Motives of private and government managers of business.*—It is asserted that private managers of business have commercial profit as their chief motive and that all their energies and their business itself are directed to increase that profit. On the other hand, it is stated that the government has as its chief purpose service to the public, and that profit scarcely enters into its business calculations.

There is some truth in these statements, but both should be sharply limited. Long experience has shown that business men, especially the most intelligent and progressive, are influenced by many other motives than that of mere profit-making, and also that the idea of service cannot be separated from that of profit. The business that serves best flourishes most. Only for a brief period, until he is found out, can a man reap higher profits than his competitors without rendering better service. He must give better satisfaction or his customers will go elsewhere.

Again, in his dealings with his employes so much is dependent upon workmen's good-will, good health, good faith, that the best employer has the best workmen, and in consequence produces the best goods at the lowest cost.

Nevertheless, there must be a return on capital or a private business must cease, whereas the government as a manager of business need make no profit at all. Inasmuch as the government is supported by taxation, it may continue business, at a loss, if the people so desire. It must not be overlooked, however, that the conduct of business at a loss means higher rates of taxation and in consequence a redistribution of wealth by governmental agencies. If the government carries my packages at a loss, either I, or the railroads, or some of my fellow-citizens must make up the deficit.

But, as the government need not show a profit, and as the government manager may wish to please those whom he serves, government management sometimes results in excellent service at great cost to the tax-payer. The government issues beautifully printed reports at rates that no private publisher could afford. The government erects magnificent buildings at costs prohibitive for the private company. One may even say without fear of successful challenge, that the government wastes in many of its activities enough to bankrupt any private corporation. Is this a question of ethics?

9. *Public servants and private servants.*—Owing to the danger of political abuses, the leading countries of the world have adopted systems of competitive examinations to select public servants, and these examinations are supposed to be binding within strict limits upon appointing officers. Many large private estab-

lishments give examinations to applicants for positions, but many other tests can be made and are made besides the technical examination. No one conversant with business believes that any system of strictly competitive examinations, binding upon appointing officers, can ever be satisfactory in the selection of employes. Government civil service examinations are simply a lesser evil as compared with political appointments.

Again, owing to the sentiment of a public not well versed in the administration of business on a large scale, public employes of the lowest grade are usually overpaid as compared with those in private business; those of the higher grades in executive positions are greatly underpaid. The consequence is that, excepting for comparatively short periods when men from patriotic motives give their services for the public good, the ablest and most skilful directors of business are in private and not in public employ. This in itself is sufficient to determine the greater cost of public service, which, it must be remembered, is also borne by the public.

10. *Relative costs of production.*—Experience, not only in our own country but in practically every other country, has shown that with rare exceptions, and those only in business more or less routine in character, private management produces more cheaply than public management. Does this argue higher or lower moral qualities of government officials, or is the question irrelevant?

It is asserted that government does not need to pay dividends on the capital invested as do private employers. But, unless the government rates are sufficient to cover costs of depreciation at least, the loss must be made up in some other way. Moreover, it has already been shown that our Post Office Department has no system of cost accounting. The same statement is true with reference to practically every department of the government, and example after example may be given of unnecessary duplication of work and of the grossest business mismanagement on the part of many departments; it could not well be otherwise. The experience is practically world-wide.

Much has been said about the marvelous organization of the German government and of its industrial work. Its railroads are pointed out as a shining example of the success of that plan, but its rates are much higher than those in the United States and there is no evidence to show that their costs, under similar conditions, are equally low. What is the moral argument of these unquestionable facts?

11. *Business men lead in wise government regulation of business.*—For the protection of the upright business man as well as of the public it is desirable in very many instances that laws be passed which shall prevent unscrupulous actions of dishonest business men. The lead in securing such legislation has often, perhaps has usually, been taken by business men themselves. Illustrations are numerous. Some of the strongest supporters of the Pure Food and Drugs

Act have been well-intentioned manufacturers glad to discard the old methods. Some of the most ardent supporters of the laws forbidding discriminations in freight rates were shippers who had themselves received rebates. Misbrandings, false use of trademarks, false labels, have been most bitterly opposed by business men themselves as piracy practised upon the legitimate manufacturer. In the United States both state and Federal laws have been passed as a result of the acts of business men.

12. *Illustrations of business honor.*—In the jewelry trade the manufacturers were in advance of the law; the National Jewelers Board of Trade by urging good legislation, initiating prosecutions and securing convictions of violators of the law. This Board has a Welfare Committee, which posts dealers regarding what constitutes fraud, false weight and misrepresentation, and which takes an active part in protecting purchasers as well as dealers.

In the silk trade, at the National Silk Convention, leading manufacturers pointed out trade abuses and asserted that the manufacturers should cooperate with the government in every way possible to protect the public against misrepresentation and fraud, urging that the trade itself should offer and promote legislation of a constructive character.

In the advertising field more progress has been made, perhaps, than in almost any other. It does not take a long memory to recall the exaggerated advertisements of a few years ago, when practically every

one refused to believe the assertions made in the advertisements even of reputable firms. That day has gone by. Newspapers refuse to receive objectionable medical advertisements; patent medicine advertisements are closely scanned. With the full support of the public, including the business men, legislation has authorized the Post Office Department to refuse to carry letters advertising "get-rich-quick" schemes that are fraudulent in their nature; and the Department officials have been most active in prosecuting promoters of such frauds. Many people fail to realize that even within the last four or five years sums of considerably more than one hundred million dollars a year have been taken from the public by fraudulent methods.

The Associated Advertising Clubs of the World have been leaders in the suppression of fraudulent advertising and in punishing the merchant who makes false statements regarding his merchandise, as to either quality or origin, and in demanding likewise that those using short measures or weights be punished. Illustrations have been given of the need of a universal knowledge of accurate weights and measures, but of late years the most active steps taken for the suppression of short-weighing have been those taken by the honest business men themselves. It is they who have taken the lead in securing evidence and prosecuting offenders.

The National Credit Men's Association, with other like bodies, has drafted and aided the passing of laws

protecting wholesalers against dealers who make false statements to obtain credit, or who by fraudulent bankruptcies or other dishonest means attempt to defraud those from whom they purchased their goods. Still other abuses, such as promising deliveries and not keeping the promises; delivering goods not according to sample; canceling orders without sufficient reason; misrepresenting goods; returning goods after contracts have been made, and other abuses are being rapidly suppressed by the action of the business men themselves. It is they who are promoting the best legislation.

One might continue with illustrations showing how the New York Stock Exchange has been active in suppressing the bucket shops, both directly and by promoting legislation, and how, within the Exchange itself, the Board of Governors has been more successful in stopping and preventing abuses than any legislation has been.

The earlier abuses growing out of the wild-cat banking schemes of the thirties and forties have been suppressed and their recurrence prevented, more by the concerted action of the bankers who wish to do a reputable business than by any legislation except the National Banking Act, which was passed at the time of the Civil War, primarily to enable the country to sell its bonds and maintain its finances for the struggle. The Act incidentally checked many of the banking abuses by making it impossible for state banks to issue circulating notes. But it is the bankers them-

selves and their associations that have done most to elevate banking standards.

If these facts are kept in mind, does it not appear clear that the recent standards of business ethics among business men have been most effective in improving business methods, as much so as legislation springing independently from those who felt that they had suffered from dishonest or unjust business abuses? The two forces have worked together.

13. *The goal of business.*—What is now and what is to be the goal of business? Is it for the employers merely high profits quickly gained? Is it for the workers wages crowded to the highest notch with deliberate restriction of output and hostility to the employer? Is it training and personal development on the part of both employer and employe with the thought that, as the individual develops, his gains of all kinds, financial, mental and moral, will be increased? Is it personal enjoyment? And if so, is it the enjoyment that comes primarily from spending money on luxuries and sports and pleasures? Or is it the deeper and sounder enjoyment that comes from the consciousness of trained ability well and worthily used? Is it service which may be rendered to one's friends and relatives from the good wages one gets, or which may come from good business well done? Is it the service that may be rendered to the community which, as experience has shown, likewise results in the best service to the business man, whether employer or employe?



As one glances back over the changes in business conditions that have taken place in the United States since the organization of our government, and especially since the Civil War, it is most cheering to see the manner in which not only the great masses of the consuming public, but also the business men themselves, have been steadily moving on from one ideal to another still nobler, with the thought of higher training and of a better community service continually becoming stronger.

On the business man's ethical ideals will depend his profits, his personality, his social relations and the benefit of the community. The urgent demand for government ownership and management has been sincere and earnest on the part of many people, because they have distrusted the motives of the business men. The results of experience as well as sound psychological business principles make it clear that better than government management is private management of business, so long as the business men live up to their higher ideals. Fortunate it is that the progress of the last few decades shows ethical standards of business men in all pursuits are steadily rising.

In the final analysis, the highest interests of the business man and the interests of the community are not opposed but in harmony. When this fact is clearly recognized and consistently made a basis of action the government will become the helpful aid of both the business man and the community, but of

neither business man nor community will it be the dominating master.

### REVIEW

What are instances of practices in business in our early history which would be considered immoral today?

What was the influence of the Civil War on the moral standards of the American people?

What are the chief causes of the demand for government management of business?

Give some instances of abuses in the capitalization of industries.

Give some instances of abuses in dealings with wage-earners.

Give some instances of a wrong use of their power by trade unions.

How do the ethical standards of business men compare with those of government officials?

In what respects are business men more advantageously situated than government officials to put into effect better business standards?

What is the plan of the Socialists for improving ethical business standards?

What are the weak points in this plan? The strong points?

What reasons have you for thinking that the ethical standards of business men are steadily improving?

Are these improvements due to the fact that business thereby becomes more profitable, or to the fact that public opinion demands them?

Consider the effect of the business man's ethical ideals on his profits, his personal character, his social relations, the community.

## INDEX

- Accidents,**  
Employers not responsible for, 135; Prevention of, 140
- Accidents, Industrial, See Industrial Accidents**
- Accounting, Cost, by Government, 312-15; 836**
- Accounting, Municipal, See Municipal Accounting**
- Adams Act, 54**
- Addyston Pipe Case, 245-46**
- Ad Valorem Duties,**  
Basis, 83; Difficulties, 88
- Advertising Ethics, 337-38**
- Agricultural Colleges,**  
Institute work, 54; Extension teaching, 58
- Agriculture,**  
Government aid to, 49-50; Importance, 49; Department of, 51 et seq.; Government bureaus, 51-52; Colleges, 52-53; Morrill Act, 52-53; Congressional acts in aid of, 53-54; Experiment stations, 54; Farm management, 56; Institute work, 57; County agents, 58-59; Home economics, 58-59; Marketing products, 59; Capitalization, 61-62
- American International Corporation, 90**
- Animal Industry, Bureau of, 51-52**
- Anti-Trust Movement,**  
Beginning, 242-43; In America, 242-43; Legislation, 242-43; International Harvester Company, 243, 246-47; Interstate Commerce Commission, 244; Prosecutions, 244 et seq.; Sherman Act, 244, 249-50; Addyston Pipe Company, 245; Standard Oil and Tobacco cases, 245; United States Steel Company, 245-46; Court decisions, 246-50; Public interest in, 250; Clayton Law, 251; Federal Trade Commission, 251; Increasing power of Federal government, 255  
*See Sherman Act*
- Armor Plant, Government, 304-05**
- Asiatic Immigration, 202-08**
- Assessment, Inequalities of, 35**
- Baker, Newton D., 280-81**
- Bank Acceptances, 91**
- Banks,**  
Foreign branches, 89-90; Federal Reserve Act, 90; National City, 90; And Insurance companies, 118; Civil War, 339; National Banking Act, 339-40; Wild cat, 339
- Bastable, Professor, 25, 27, 320**
- Beaulieu, Leroy, F., 309-11**
- Benefits, See Workmen's Compensation**
- Bethlehem Steel Company, 304-05, 314**
- "Birds of Passage," 201, 216**
- Board, Tariff, 87**
- Bonded Goods, 88**
- Bounties,**  
Definition, 84; Examples, 85; Sugar, 85
- Bourne, Jr., Jonathan, 320-21**
- Boycott, See Labor Unions**
- British National Insurance Act, 198**
- Brooks, Sydney, 271-72**
- Brown, W. C., 6**
- Bureau,**  
Des Archives, Paris, 108; Of Standards, 109; Of Labor, 141  
*See Public Inspection of Business*
- Burleson, Secretary, 263-66, 269-70**
- Business,**  
In social organizations, 1; Lowell, J. R., 1; Foundation of civilization, 2; State owned, 4; Post office, 4; And Legislation, 12; Protection of, 15; Public opinion, 17; What is included, 18; Aided by diplomats and consuls, 98-94; Consular Bureau, 103; Need of standards, 107; Population, 200; Importance of immigration, 200; Demand for government

- Business**—continued  
 management, 328-29; Ethical standards, 338; Kind that flourishes, 333-34
- “**Business and the Man**,” 1
- Business Ethics**,  
 Advertising, 337-38; Credit men, 337-38; New York Stock Exchange, 339; Goal not merely profit, 340-41; Ideals of, 341  
*See* Government, Management and Business Ethics
- Business Game**, Social Aspects of, 2
- Business Man**, The,  
 As an individual, 1; As a citizen, 2; Study human nature, 2; Need for clear vision, 3; Organized capacity of state, 4; Relation to government, 8, 9; Executive and judiciary and the, 12; Legislatures, 12; Protection of legitimate interest, 12; As authority, 18; Influence on public opinion, 18; Must keep informed, 19  
*See* Citizen
- California Tax Commission**, 23-24
- Canada**,  
 Dominion Criminal Code, 240-41; Trust policy, 240-41; Combines Investigation Act, 241; Mackenzie King, W. L., 241-42; Reduced fare for workmen, 290; Railroads in, 308-09
- Capital**,  
 Minimum, 25; Ratio to labor units, 25-26; Diverted by tariff, 77; Invested in foreign lands, 90; Need for in employment, 212-14; Corrupt influence of, 331-32
- Cardinal Principle of Socialism**, *See* Public Management
- Certification**,  
 Of medical men, lawyers, teachers, 118-20; Of other public servants, 120; Quasi-official principles, 120-22
- Child Labor Act**, 255
- China**,  
 Tariff, 66; “Open door,” 92; Loans to, 93; Cotton mills, 98; Consular reports, 100
- Citizen**,  
 Business man as a, 1; Regulated by state, 1-2; Expression of individual will, 7; Share in governmental responsibility, 8; Type holding land, 44
- City**, Problem of the, 205
- Civil Service Examinations**, 335
- Civil War**,  
 Income tax, 33, 37-38; Foreign trade, 80-81; Public sentiment and, 327-28; Banking, 339
- Clayton Act**,  
 Labor and, 157, 161; Passed, 250-51; Federal Trade Commission, 252-53; Provisions, 253; “Tieing” arrangements, 253-55; Advantages and disadvantages, 254-55
- Colleges**, Agricultural, 53
- Combines Investigation Act**, 240-41
- Commerce**,  
 Distinguished from manufacturing, 255; Interstate, 256
- Commercial Attaché**, 97-98
- Commercial or Special Agents**, 99-100
- Commissions**,  
 Tariff, 37; New Industrial, 144; State, 226-27  
*See* Federal Trade Commission, Interstate Commerce Commission, Public Service Corporations
- Committees**, Legislative, 13
- Compensation**, Workmen’s, *See* Workmen’s Compensation
- Competition**,  
 Selling prices, 28; Taxation and consumer, 28; Home, and tariff, 80; Federal Trade Commission on, 94; Railroad, 220-21; In public utilities, 223; Preservation of, 236; Government, 267
- Compound Duties**, Methods of Collecting, 84
- Congressional Acts**, 51, 57-58
- Conservation of Natural Resources**,  
 Gary, L. C., 46; National Conservation Commission, 47; *Quarterly Journal of Economics*, 46-47; Reclamation law, 47; Roosevelt, Theodore, 47; Parks, 48; Lane, Franklin K., 49; Plans, 49
- Consular Bureau**,  
 Work of, 100; Branches, 102; Cooperation with business, 103
- Consular Reports**, 100-02
- Consular Service**, Assistance of, 4
- Consuls**, United States,  
 Work of, 94; Aids to business, 95; Reports, 95; Duties, 96
- Consumer**,  
 Selling price to, 28; Bears tariff burden, 74-75
- Contracts**,  
 Labor, 125-26; Nature and impor-

- Contracts**—continued  
 tance of, 125; Necessity of public regulation, 127
- Corn Laws in Great Britain**, 70
- Corporations, Public Service**, *See* Public Service Corporations
- Corporations, Taxation of**, *See* Taxation
- Corruption, Legislative**, 13
- Cost of Living**, 17
- Cost of Production, and Taxation**, 29
- County Agents**, 58-59
- Courts, Decisions in Anti-Trust Cases**, 246-50; Valuation of property, 232-33
- Credit Men's Association, National**, 339
- Death Duties**, 34
- Department of State**, *See* State, Department of
- Dillingham-Burnet Bill**, 210, 216
- Diminishing Returns, Law of**, 28-29
- Diplomatic Service**, 93
- Direct Taxation**,  
 Collection, 80-81; Unpopularity, 80-81; Types, 81
- Discriminating Practices**, 230
- Diseases**,  
 Occupational, 141; General, 142
- Dividends, Government Management**, 836
- "Dollar Exchange,"** 91
- Dominion Criminal Code**, 240
- Drawback, The**, 83
- Dumping, 85-86**
- Duties**,  
 New York City, 82; Ports of entry, 82; Appraisal, 83; Bonded goods, 83; European "free ports," 83; Drawback, 83; Kinds, 83; Three methods of collection, 83-84
- Ely, R. T.**, 238
- Employers, Liability of**, 189
- Employment, Need of capital in**, 212-14
- Employment of Women and Children**,  
 Formerly infrequent, 166; Early environment, 167; Exclusions, 167-69; Hours, 170; Sanitation, 171; Age requirements, 171; Deterioration thru, 172; Habits of industry, 173; Need to supplement family income, 174; Result to production, 174; Result to society, 176; Competitive indus-
- Employment of Women and Children**,  
 —continued  
 try, 176; Laws limited, 178-79
- England**,  
 Legislation, 13; Farm taxation in India, 24; Income tax, 33; Inheritance tax, 34; Trust policy, 240; Postal service, 259-60; Municipal ownership, 275, 279  
*See* Great Britain
- Equality**,  
 American policy of, 162; Legal and actual, 162; Democracy demands, 164
- Erickson, Halford**, 291
- European War**,  
 Taxation, 24; Tariff, 85; Dumping, 86; Lessons of, 86; Farrell, President, 89; Foreign trade of U. S., 89  
*See* Postal Service
- Exchange, Foreign**, *See* Foreign Exchange
- Executive, The**,  
 And business, 14; Chief criticism, 15
- Expenditure, Public**, *See* Public Finance
- Experiment Stations, Government**, 54-56
- Export Trade**,  
 Stimulated by government aid, 98; Inspection, 114-15  
*See* Foreign Trade
- Extension Teaching by Government**, 58
- Factory System**, 331
- Farmers, Aid to**, *See* Agriculture
- Farming, Social and Economic Improvement in**, 63
- Farm Products**,  
 Incidence of taxation, 28-29; Marketing, 59; Standard grades, 59-60
- Farrell, President, on Foreign Trade**, 89
- Federal Government, Taxation**, 87
- Federal Incorporation**, 256
- Federal Reserve Act**,  
 Aids foreign trade, 89-91; Bank acceptances, 91
- Federal Trade Commission**,  
 Foreign trade, 103; Powers, 103, 251; Aids Consular Bureau, 104; On competition, 104; Organization, 250-51; Investigations by, 251-53; Classification of corporations, 253; Requires reports, 253;

- Federal Trade Commission**—continued  
 Unfair competition, 253-54; Advantages, 254-55; Armor plant, 305
- Federated Malay States**, 39
- Feudal System**, Land under, 44
- Foreign and Domestic Commerce**, Bureau of, 96
- Foreign Exchange**,  
 Bank acceptances, 91; "Dollar exchange," 91; Federal Reserve Act, 91; Sterling bills, 91
- Foreign Trade**,  
 Civil War, 80-81; Tariff, 80-81; European War, 89; Need for, 89; American International Corporation, 90; Federal Reserve Act, 90-91; Foreign Investment, 90; National City Bank, 90; Relations, 90; Basis, 91-93; China, 91-93; Government aid, 92-93; Hay, John, 92; South America, 92-93; Aid from diplomatic service, 93; Consuls, 94-95; Bureau of Foreign and Domestic Commerce, 96; Commercial attaché, 97; Stimulation thru imports, 98-99; Commercial and special agents, 99-100; Division of Consular Reports, 100-03; Federal Trade Commission, 103  
*See* China, South America
- Forests**, Ownership of, 45-46
- France**,  
 Tariff, 69; Municipal ownership, 285-89; Government management, 309-11
- Franchises**, Public, 219
- "Free Port" System**, European, 33
- Gary, L. C.**, 37
- Gary, E. H.**, 248, 324
- General Property Tax**, *See* Tax, General Property
- General Tariff**, *See* Tariff
- George, Henry**, Single Tax, 36
- Germany**,  
 Tariff, 66, 70, 75; Competition, 104; Workmen's Compensation, 187; Health insurance, 193 et seq.; Old age insurance, 196-97; Old age pensions, 197; Unemployment insurance, 197-98; Trust policy, 239-40; "Kartell," 239; Telegraph and telephone, 270; Municipal ownership, 275, 278; Government management, 304, 307; Communistic or socialistic plans, 327; Railroad rates, 336
- Glasgow, Municipal Ownership**, 284-85, 290-91
- Gompers, Samuel**, 210
- Gordon, E. R.**, 308
- Government**,  
 Organization, 3; Service by, 4; Agent of the state, 6; Not an abstract thing, 8; Responsibility, 8; Need of a large conception of, 11; Funds, 22; Income, 22-23; Cost of, 23; Taxation, 23; Agent of human wants, 41; Land policy of U. S., 45; Parks, 48; States, land grants to, 48; Assistance to agriculture, 50 et seq., 62; Self-sufficiency, 86; Foreign trade, 89; State Department, 93 et seq.; Provisions for protection, 137; Protects industries, 138; Regulations for labor unions, 153; And Public Service Corporations, 224; Commissions, 227-29; Regulation, 227-29; Child Labor Act, 255; Increasing power of Federal, 255; Incorporation by Federal, 256  
*See* Citizen, Conservation, Executives, State, etc.
- Government Management and Business Ethics**,  
 Decision on right or wrong, 326; Early governments, 326; Increasing power of individual, 326-27; Civil War, 327-28; Europe, 327; Socialists, 327; Awakening public consciousness, 328; Demand for, in business, 328-29; Discriminations, 329; Interstate Commerce Commission, 329; Railroads, 329; Unjust distribution, 329; Abuses of wage-earners, 330-31; Checking monopoly, 330; Pooling, 330; Sherman Act, 330; Corruption, 332; Standards, 332; Fundamental laws, 332; Employees, 333; Motives, 333; Competitive examinations, 334-35; Need not show profit, 334; Service and cost, 334
- Government Management, Extension of**,  
 Not a panacea, 299; Socialists advocate, 299, 303-04; Industries affecting health, 300; War materials, 300; European governments and, 302-03; *New York Evening Post*, 303; Armor plant, 304-05; Bethlehem Steel Company, 304-05, 314; vs. private, 304-05; Merchant marine, 305-06; Wilson, Woodrow, 306; Basis,

**Government Management, Extension of**, —continued  
 307; Germany, 307; Post Office, 307; Railroads, 307-08; Value, 307; Canadian railroads, 308; Union Pacific, 308; Beaulieu, Leroy P., 309-11; *North American Review*, 309-11; Unsuccessful in France, 309-11; Conditions of success, 311-13; Jevons, W. Stanley, 311-13; Relative costs, 313; Taxes, 313-14; Efficiency, 314-16; Fiscal statements, 314-16; Taft, W. H., 314-15; Cleveland, F. A., 315-16; *Saturday Evening Post*, 315; Federal Efficiency Board, 316; Need for coordination, 316; And private enterprises, 316-18; Seldom source of revenue, 318-19; Telephone and telegraphs, 318; Dangers of large civil service, 319-20; Labor conditions, 319; Bastable, Professor, 320; Bourne, Jr., Jonathan, 320-21; Employees, 320-21; Economic results, 321-22; Limitations, 321; Corruption, 322; Knowledge of facts, 322-23; Public welfare, 323-24; Gary, E. H., 324

**Government Officials**, 9

**Government Ownership**, *See* Municipal Ownership, Postal Service, Telegraphs and Telephones

**Great Britain**,  
 Workmen's compensation, 191; Health insurance, 193-94; Municipal ownership, 284-85, 290; Government as employer, 303

**Hamilton, Alexander**, 67-68

**Hatch Act**, 53-54

**Health Insurance**,  
 Germany, 193 et seq.; Losses from sickness, 193; In U. S., 193; Benefits, 194; Great Britain, 194; Scope, 194; Sources of funds, 194; Administration difficulties, 195; Results, 195

**Holding Companies**, in Public Utilities, 294

**Home Economics**, Instruction in, 58

**Home Market**, Tariff and the, 79

**Home Rule**, Public Service corporations, 280

**Homestead Act**, 45, 47-48

**Howe, F. C.**, 278

**Human Nature**, Business man must study, 2

**'Immigrant Invasion,' The**, 211

**Immigrants**,  
 Single men, 201, 205; Changing character, 202-03; Racial grouping, 203; Occupation, 203; Agricultural, to Northwest, 204; Distribution, 204; Majority in cities, 204-05; Number in New York, 204; 'Immigrant in America Review,' 205; Detrimental influence, 206; Economic productiveness, 206; Hebrew and Slav., 206-07; Living standards, 207; Low wages, 207; Population, 207-08; Need for restriction, 211; Financial factors, 212; Money of, 214; Paish, Sir George, 214; Americanization, 216-17; Education, 216-17; Needs, 216-17

**Immigration**,  
 Extent, 200-01; Importance, 200; 'Birds of Passage,' 201, 206, 216; Rate of increase, 201; In hard times, 202; Asiatic, 203; City problem, 205; Restrictions, 209-11; Labor supply and, 209; Dillingham-Burnet Bill, 210, 216; Gompers, Samuel, 210; Opposed by labor unions, 210-11; Social and economic aspects, 211; United Garment Workers of America, 211; Warne, F. J., 211; Dangers, 212; Natural resources, 212; Professor Fairchild, 212; Capital, need for, 213-14; United States Commission, 213-14; Raising Standards, 214-15; Canada and South America, 215-16; Evils, 216

**Imports of Tin**, 99

**Income Tax**,  
 State, 40; Science of, 24, 26; Combined with inheritance, 32; Difficulties, 32; Exemptions, 32; Objections, 32; Civil War, 33; England, 33

**Incorporation**, Federal, 256

**Increment**, Unearned, *See* Unearned Increment

**India**, Farm tolls in, 24

**Indirect Taxation**,  
 Advantages, 30; Unpopularity, 30-31; Internal revenue, 35; Civil War, 37-38; Federal government, 38; History of, 37-8

**Individual**, Expresses will thru government, 6

**Industrial Accidents**,  
 Frequency, 187; Causes and consequences, 188-89; Lessening, 188;

- Industrial Accidents**—continued  
 Employer's liability, 189; Prevention, 192-93  
*See* Workmen's Compensation
- Industrial Conditions**, Effect of Immigration, 205
- Industrial Revolution**, 167, 183
- Industries**,  
 Incidence of taxation, 28; Of "increasing returns," 29; Monopolistic, 29; Diversified, 76; Tariff, 80-82; Nicholson, 81-82; Perils in modern, 181-82, 188; Accidents, 138; Mining, 138; Commissions, 144; Coming of modern, 167; Unemployment, 184; English, 240; Checking Combinations, 330  
*See* Tariff
- Infant Industries**, 72-73
- Inheritance Tax**,  
 Combined with income, 82; Advisability, 84; Basis, 84-85; England, 84; New York, 84; Rate, 84; Avoidance, 85; State, 89-40
- Insurance**,  
 Risks of modern life, 183-84; Little sought by workers, 184; Part of savings, 184; Value, 184-85; Required of employers, 192; Old-age, 196-97; vs. unemployment, 197-98  
*See* Health Insurance
- Insurance, Life**,  
 Industrial, 186; Abroad, 186; Italy, a monopoly, 186; Wage earners, 186
- Insurance, Social**, *See* Social Insurance
- Interest Rates**, 282
- Internal Revenue**,  
 Laboring men, 85; Emergency, 88; Subjects of, 88
- International Harvester Company**, 246-47
- International High Commission**, 93
- Interstate Commerce Commission**, 23, 226, 230, 232, 244, 267, 329-30
- Investigations**,  
 Of Legislatures, 14; For commerce, 93; Federal Trade Commission, 251-52
- Investment, Foreign**, 89-90
- Irrigation Lands**, 47
- Jevons, W. Stanley**, 311-13
- Judiciary, The**, 15
- "Kartell," The, 289-40
- Labor**,  
 Public opinion and, 18; Productivity, 77; Importance of contracts, 125-26; Constitutional limitations, 127-28; American policy, 128; Government protection of, 137; Public inspection, 143; Regulation, 145; Does not seek insurance, 184; Prosperity, 209-10; Supply, and immigration, 209; Child Labor Act, 255; Under municipal ownership, 238-84; Political power, 320-21; Abuses, 330-31; Living conditions, public consciousness, 330-31; Real wages, 331
- Laboring Class**,  
 Exemptions from taxation, 85; Internal revenue, 85
- Labor Laws**,  
 Experience as guide, 129; Health and Morals Act, 182; Youthful workers, 139; Clayton Act, 157, 161; Injunctions, 161
- Labor Unions**,  
 Origin, 149-51; Growth and extent of, 151-58; Government regulation, 153; American industrial revival, 155-57; Strikes, 158; Boycott, 159; Picketing, 160; Control of, 161; Clayton Act, 161; Taff Vale case, 161; Liability of members, 161; Democracy and equality, 164; Opposition, 210-11
- Labor Units**, Ratio of capital to, 213
- Land**,  
 Tax, costs of production, 29; Citizen owning, 44; Estates, 44; Feudal system, 44; Right of holding, 44; Homestead Act, 45; Grants, 46; Private ownership, 44; Forest, 45; Mineral, 45  
*See* Agriculture, Conservation of Natural Resources, Government
- Lane, Franklin K.**, 49
- Law, The**,  
 Interpretation, 12; Framing, 12; Restrictions, 12; Workmen's compensation, 186-89; Employer's liability, 189
- Legislation, Tariff**, 71
- Legislatures**,  
 Members not experts, 12; Committees, 13; Corruption, 13; England, 13; Investigations of, 14; Protection of legitimate interests, 14
- Lowell, J. R.**, 1



- Mackensee-King, W. L.**, 241-42  
**Maine, Sir Henry**, 125  
**Malay States, Federated**, 89  
**Manufacturing, Distinguished from Commerce**, 255  
**Marketing Problems**, 59  
**Maximum and minimum tariff, See Tariff**  
**McKinley Tariff Act**, 84-85  
**Mercantilists**, 67  
**Merchant Marine**, 805-06  
**Mineral Lands**, 45  
**Minimum Wage**,  
 Opinions on, 179; Attitude of employers, 180; Caution in adopting, 180  
*See Wages*  
**Money-Order, Postal**, 260  
**Monopoly**,  
 Incidence of taxation, 28, 30; Industries, 30; Tariff, 80; Classification, 219; Franchises, 219; Natural, 219; Examples, 220; Checking, 330  
*See Anti-Trust Movement, Trusts*  
**Montreal, Reduced fares to workmen in**, 290  
**Morrill Act**, 52-53  
**Municipal Accounting**,  
 Erickson, Halford, 291; Government system poor, 291-92; New York State Public Service Commission, 291-92  
**Municipal Ownership**,  
 English and German, 275, 278-79; Lines of, 275; Importance of public utilities, 275-76; Electric light plants, 276-77; Waterworks, 276; Increase in, 277; Gas works, 278; National Civic Federation, 277-8; San Francisco, 278; Street railways, 278; Howe, F. O., 279; Regulation vs., 279-80, 282-83; Wilcox, D. F., 279-80; Baker, N. D., 280-81; Corruption, 280-81; Moral Aspects, 280-81; Reasons for, 280-81; Economic policy, 281; Interest rates, 281-82; Lower prices, 282; Labor conditions under, 283-84; Wages, 283; Watered stock, 283; Glasgow, 284-5, 290-91; How carried on in Europe, 284-85; Social and political improvement, 284; In France, 285-89; Leroy Beaulieu, F., 286-89; Paris, 286-88; Other French cities, 88-89; Reduced fares to workmen, 290; Combination of plants, 292; Public Service Corporation of New Jersey, 293; Holding companies, 294; Inefficiency, 294-95; Where necessary, 295; When profit is motive, 296; vs. private management, 296-97; Winchester, A. E., 296-97
- National City Bank**, 90  
**National Civic Federation**, 277-78  
**National Conservation Commission**, 47  
**Natural Resources, See Conservation of Natural Resources**  
**New Jersey, Public Service Corporation of**, 229, 293  
**New York, Number of immigrants**, 204  
**New York Evening Post**, 302-03  
**New York State, Inheritance Tax**, 84  
**New York Stock Exchange**, 339  
**Nicholson, on the Tariff**, 81  
**North American Review**, 309-11
- Old-Age Insurance**,  
 Reasons, 195-96; Compulsory, 196; Germany, 196-97; System, 196; Voluntary savings, 196  
**Old-Age Pensions**,  
 Not insurance, 196-97; Abroad, 197; In United States, 197  
 "Open Door," with China, 92  
**Ownership, of land**, 44  
*See Government, Municipal Ownership*
- Paish, Sir George**, 214  
**Pan-American Financial Conference**, 92  
**Paris, Municipal Ownership in**, 286-89  
**Parker, A. P.**, 158  
**Parks, Public**, 48  
**Parcels Post, See Post, Parcels**  
**Pennsylvania, Constitutional Provisions on Taxation**, 26  
**Picketing, See Labor Unions**  
**Plant Industry, Bureau of**, 52  
**Political corruption**, 280-81  
**Politics, See Tariff**  
**Pooling**, 330  
**Population**,  
 Importance, 200; Birth rate, 208; Immigration and, 208, 215  
**Post Office, United States**,  
 Owned by State, 4; Burleson, 263-66; Financial failure, 263; Political jealousy, 263; Lack of ac-

- Post Office, United States**—continued  
 counting methods, 264; Reasons for inefficiency, 264-65; Extravagance, 265-66; Rural service, 265-66; *Saturday Evening Post*, 265; New buildings, 266-67; Parcels post, 266-67; Special favors by, 266; "Pork barrel," 267; Extension of government management, 306
- Post, Parcels**  
 Competition, 267-68; Express companies and the, 267; Interstate Commerce Commission, 267; New principle, 267-68; Three reasons for, 267; Efficiency, compared to freight and express, 268; Expenses, 268; No determination of costs, 268-69; Research of Alexander Hamilton Institute, 268; Railroads and, 269
- Postage Stamp, 259**
- Postal Service**  
 Government management, 257, 260-63; Importance, 257; Parcels post, 257; Wilson, Woodrow, 257; History, 258-59; Expansion, 259-60; First American, 259; In foreign lands, 259-60; Money-orders, 260; Savings, 260; War, 260-61; As source of profit, 261; Deficits, 261, 263-65; Educational and social aspects, 261-62; Efficient and economic management, 262-63
- President, The**  
 Duties to individuals, 10; Responsibility, 10; Assistants to, 11; Working conditions, 11
- Prices**  
 Tariff and, 74, 77; Municipal ownership, 282
- Private management**  
 vs. public, 304-05; Efficiency, 316-17; Dynamic, 317-18; Opportunities, 317-18; Reasons for success, 317; Employees, 333; Goodwill, 333; Profits, 333; Return on capital, 334
- Privileges, Quasi-Official, 120-22**
- Production, Costs of, in Government management, 335-36**
- Property, Valuation of, 232-33**
- Protection**  
 All classes of workers, 139; In mining, 139; Of trade, British, 154
- Protective Tariff, See Tariff "Public Finance," 25**
- Public Finance**  
 Definition, 40; Taxation, 40; Wag-
- Public Finance**—continued  
 ner, Professor A., 40; Expenditures, 40-41; Importance, 41
- Public Inspection of Business**  
 Controversy, 107; Weights and measures, 108-10; Salt, lumber, grain and sugar, 110-13; Of meats, 113-14; For export trade, 114-15; Pure food laws, 115-18; Banks and insurance companies, 118; Other public servants, 120; Limitations, 122-23; Bureau des Archives, 108
- Public Management**  
 Cardinal principal of Socialism, 299; Advantages and disadvantages, 299-300; Extent, 301-03  
*See* Government management
- Public Opinion**  
 Nature, 16; Political leaders, 16; Definition, 17; Influence on business, 17-18; Labor, 18; Strikes and, 20; Social condemnation, 20; Civil War, 327-28; Awakening, 328
- Public Service Corporation of New Jersey, 293**
- Public Service Corporations**  
 Growth, 218; Kinds, 218; Distinguished from other industries, 219; Monopolies, 219, 221; Water power, 221-22; Characteristics, 222; Relation to public, 222; Competition, 223-4; Substitutes, 223; Bad practices, 224; Development, 224; Government assistance, 224; Privileges, 224-25; Difficulties, 225; Misunderstanding of, 225; Regulation, 225-26; Wilcox, 225; Interstate Commerce Commission, 226; State and colonial commissions, 227; State regulation, 228-29; New Jersey Public Service Corporation, 229; Home rule, 230; Rate regulation, 233-34; Regulation of issues, 234  
*See* Monopoly
- Public Service Corporations, Commissions Regulating**  
 Regulation of, 226; Choosing members, 227; Powers, 227-28, 231; Qualifications, 227; Home rule, 230; Interstate Commerce Commission, 230, 232; Rate regulation, 231-32; Determination of income, 232; Valuation of property, 232-33; Municipal ownership, 279; Political corruption, 280-

- Public Service Corporations, Commissions Regulating**—continued  
81; Consolidation, 298-94; Holding companies, 294
- Pure Food Laws, See** Public Inspection of Business
- Quarterly Journal of Economics, 46-47**
- Railroads,**  
Early mistake, 6; Brown, W. C., 6; Publicity, 19; Natural monopolies, 220; Double production, 220; In same territory, 220-21; Monopolies, 221; Federal, State and colonial commissions, 226; Parcels post, 269; European, 307; Financial juggling, 307-08; Canadian, 308-09; Union Pacific, 308; Gordon, E. R. G., 309; *North American Review*, 309-11; Abuses, 329; Discriminations, 329; Government management, 329-30
- Railways, Municipal ownership of street, 278**
- Rates,**  
Inheritance tax, 34; Regulation, 231-32; Railroad, Germany, 336
- Reclamation Service, 47-48**
- Regulation,**  
Necessity of public, 127, 176; Results, 129; Imperfections, 130; Safety and sanitation, 130; General characteristics, 140; Labor, 144; Labor unions, 153; Demand for, 168; Basis in U. S., 169; Arguments, 172; Qualities, 177, 181; Of trusts, England, Germany, Canada, 239-42; Public utilities, 279; Expenses, compared to municipal ownership, 283; Wise, 336-37  
*See* Postal Service, Public Service Corporations, etc.
- Responsibility,**  
Of citizens to state, 8; Of President, 11
- Restraint of Trade, Reasonable and Unreasonable, 24-45**
- Roosevelt, Theodore, 47**
- Rural Conditions, 62**
- Safety,**  
Employers' failure to provide for, 136; Mining, 138; Agriculture, 139; Workmen's compensation, 142; Departments of the United States—continued  
States Steel Company, 146; Industrial, 147; Regulations, 136  
"Safety-First," 193
- Sanitation, Health and Morals Act, 140**
- Saturday Evening Post, 265**
- Savings,**  
Voluntary, 196; Postal, 260
- Securities, Regulation of Issue, 284**
- Sherman Anti-Trust Act, 103**
- Monopoly, 244; Purpose, 244; Restraint of trade, 244-45; Uncertainties, 250; Regulation, 329-30**
- Sickness,**  
Burden of, among employes, 134; Employes not responsible for, 135; Occupational, 141; General, 142
- Single Tariff, See** Tariff
- Single Tax,**  
George, Henry, 86; "Progress and Poverty," 86; Objections, 86; Political issue, 86; Unearned increment, 87
- Smith, Adam, 27**
- Smith-Lever Bill, 57**
- Social Insurance,**  
Industrial revolution, 183-84; Industrial risks, 183; Unemployment, 184; Meaning, 185; Public policy, 185; Systems, 185; Life, 186; Workmen's compensation, 186-87; Results, 198-99; Outlook, 199  
*See* Health Insurance; Old Age Insurance
- Social Origins, Business and, 1**
- Socialism,**  
Cardinal principle of, 299; Government management and, 303; Growth, 327; Ethical standards, 328-29
- South America,**  
Trade with, 91; Pan-American Conference, 92; International High Commission, 92-94; Immigration to, 216
- Specific Duties,**  
Basis, 84; European, 84
- Standard of Living, 207-09**
- Standard Oil, 245**
- Standards,**  
Need of, in business, 107; Bureau of, 109; Immigration, 214-15
- State,**  
And business, 4; Consular service, 4; Department, 4; Necessity for, 3; Organized capacity, 4; Purpose, 4; Regulations, 4; Assist-

**State—continued**

ance to citizen, 5; Government the agent of, 6; Ownership of land at will of, 44-45; Conservation, 46; Government grants, 48

*See* Citizen, Business and the Government

**State Commissions, 226-27****State Department,**

Aid to business, 93-94; Consuls, 93-96; Diplomatic service, 93; Bureaus, 96; Commercial attaché, 97; Commercial and special agents, 99-100

**State Lands,**

Forest, 45-46; Homestead Act, 45; Mineral, 45; Policy, 45

**Sterling Bills, 91****Strikes, 20**

*See* Labor Unions

**Sugar Bounty, 85****Sumner, Professor, 27-28****Taff Vale Case, *See* Labor Unions****Taft, William H., 314-15****Tariff,**

Commission, 88; Taxation, 88; In China, 65-66; Controversy, 65; Industrial protection, 65; Single, 65; Systems, 65-66; General, 66; Germany, 66, 70, 75; Maximum and minimum, 66; "Most favored nation," 66; Treaties, 66; France, 67; Hamilton, Alexander, 67; Mercantilists, 67; Reasons for early adoption, 68; Economic interests, 69; North vs. South, 69; British Corn Laws, 70; Farmers, 70; Manufacturing demand, 70, 77-78; Principles, 71; Three classes of products, 71-72; Infant industries, 72; Difficulties, 73; Rate, 73; Imports, 74; Prices, 74, 77; Burden, 75; Makes government self-sufficient, 75, 86; In war times, 75; Diversified industries, 76; Diverts capital, 77; Wages and, 77; Productivity of labor, 78-79; Home market, 79; Foreign trade, 80; Home competition, 80; Monopoly, 80; Possible injurious effect on industry, 80; Nicholson, 81; Machinery, 82; Objections, 82; McKinley Act, 84-85; Dumping, 85-86; European War, 85; History, 85; Board, 87; Commission, 89, 87; Consuls get information, 95

*See* Bounties, Duties

**Tax, General Property,**

Assessment, 31; Condemnation, 31; Forms, 31-32

**Tax, Income, *See* Income Tax****Tax, Inheritance, *See* Inheritance Tax****Tax, Single, *See* Single Tax****Taxation,**

Interstate Commerce Commission, 22; Railroads, 22; California Tax Commission, 23-24; Farm, 23-24; European, 24; India, 24; Inequalities, 24; Importance, 24; Who pays, 24; Bastable, 25, 27; Nature, 25; Definition, 25; Shifting burden, 25; Source, 25; Justification, 26; Rules, 26-27; Smith, Adam, 26; Direct and indirect, 30; Assessment, 35; Local conditions, 35; Export, 39; Federated Malay States, 39; Ideal, 39; Corporation, 40; Personal property, 40

**Taxation, Incidence of,**

Definition, 27; Justice, 27; Sumner, 27; Law of diminishing returns, 28; Monopoly, 28; Underlying conditions, 28; Cost of production, 29; Increasing returns, 29

**Telegraph and Telephone,**

Financial failure of government owned, 311-13; Jevons, W. S., 311-13; *Telephone and Telegraph Age*, 318-19; Reasons for government ownership, 269-70; European, 270-71; Germany, 270; United States, 270-71; Brooks, Sydney, 271-72; Guiding principle of government owned, 272-73; Importance of cost finding, 273; Privately owned, 273

**Textiles, Selling price, 28****"Tying" Arrangements, 253-55****Tin, Imports of, 98-99****Tobacco, American, Company, 245****Trade, Foreign, *See* Foreign Trade****Trade Unions, 331**

*See* Labor Unions

**Treaties, 66-67****Trusts and Combinations,**

Two government policies, 236; Definition, 237; Government interference, 237-39; Arguments against, 238-39; Public apprehension, 238-39; German "Kartell," 239; Canada, 240-41; England, 240-41; Anti-trust movement, 242

*See* Anti-Trust Movement

- Unearned Increment, 85-86**  
**Underwood Tariff, 84**  
**Unemployment, 201**  
**Unemployment Insurance,**  
     Difficulties, 197-98; Reasons for,  
     197-98; Bad effects, 198; British  
     National Insurance Act, 198  
**Union Pacific Railroad, 308**  
**United Garment Workers of America,**  
     211  
**United States Steel Company, 146,**  
     245-46, 248-50
- Vision, Need for, in Business, 2**
- Wage Earners, Abuses, 380-81**  
     *See* Labor
- Wages,**  
     Tariff, 77; Inadequacy, 174; Re-  
     sults of low, 175; Minimum, 178;  
     Extent of low, 179; Real, 831;  
     Private vs. municipal ownership,  
     288  
**Wagner, Professor Adolph, 46**  
**War, European, *See* European War**  
**War Material, Government manage-**  
     ment of manufacture of, 801
- Warner, F. J., 211**  
**Watered Stock, 282**  
**Water Power Companies, 221-22, 276**  
**Wealth,**  
     Distribution, 209; Labor, 209;  
     Prosperity indicated by, 209-10  
**Weights and Measures, *See* Public In-**  
     spection of Business  
**Wilcox, Delos E., 225, 279-80**  
**Wilson, Woodrow, 257-306**  
**Winchester, Albert E., 296-97**  
**Wisconsin Railroad Commission, 291**  
**Women and Children, Employment of,**  
     *See* Employment of Women and  
     Children  
**Workmen's Compensation,**  
     Safety thru, 142; Definition, 187;  
     Germany, 187; Industrial acci-  
     dents, 187-89; Extension, 188;  
     Employers' liability, 189, 190;  
     Legal and economic theory, 189-  
     90; Three essentials, 190; Bene-  
     fits, 191-92; Limits, 191-92;  
     Occupational diseases, 191; Scope,  
     191; Tendency in U. S., 191;  
     Administration, 192; Insurance of  
     benefits, 192; Prevention of acci-  
     dents, 192-93; Results, 192-93;  
     Costs for employer, 193  
     *See* Industrial Accidents

W A G E S